



World Finance & Banking Symposium

Singapore, 12-13, 2014

EPROCEEDINGS

ISBN: 978-989-98816-2-4

INDEX

Can Real Option Help Explain The Relationship Between Cash Holding and The Economy?	
 Jiun-Lin Chen - University of Adelaide	
 Zi Jia - Louisiana State University	
 Ping-Wen Sun - Jiangxi University of Finance and Economics	12
Analysis for the Correlation Between Fama-French Portfolios by a VAR-GARCH Model with non-Normal Margins	
 Yanjia Yang - Nankai University	
 Jiayi Zhu - Nankai University	
 Liuling Li - Nankai University	13
The Value of Corporate Coinsurance to the Shareholders of Diversifying Firms: Evidence from Marginal Tax Rate	
 Hyeongsop Shim - Ulsan National Institute of Science and Technology	14
Cascading Defaults and Systemic Risk of a Banking Network	
 Changhao Zhang - National University of Singapore	
 Jin-Chuan Duan - National University of Singapore	15
Were Stocks More Volatile during the Global Financial Crisis?	
 Sazali Abidin - The University of Waikato	
 Azilawati Banchit - Universiti Teknologi Mara	
 Junqi Wu - The University of Waikato	16
Labor Protection Laws and Firm Volatility	
 Fatemeh Hosseini - Stockholm School of Economics	17
The impact of media on CSR	
 Younghan Andy Kim - Nanyang Technological University	
 Jingoo Kang - Korea University	18
The Disturbing Interaction between Countercyclical Capital Requirements and Systemic Risk	
 Balint Horvath - Tilburg University	
 Wolf Wagner - Tilburg University	19
Impact and Response of Asian Debt Crisis and Global Imbalances of Emerging Market Economies	
 Thanet Wattanakul - Khon Kaen University	20
Herding Behavior In the Indonesian Stock Exchange: The Roles and Contributions of Foreign Investors During The Period 2006 to 2011	
 Roni Setyawan - University of Tarumanagara	
 Ishak Ramli - University of Tarumanagara	21
Profitability and Capital Structure – International Cross-Size and Cross-Industry Evidence from the EU Countries	
 Julia Koralun-Bereznicka - University of Gdańsk	22
The United States Shutdown -- An Economic Powerhouse in Debt's Stranglehold?	
 Carsten Croonenbroeck - European University Viadrina	23
The Costs of Bank Equity Offerings in Response to Strengthened Capital Regulation	
 Katsutoshi Shimizu - Nagoya University	
 Peng Xu - Hosei University	24

Bank Liquidity Risk Diversification	
Nikolas Topaloglou - Athens University of Economics and Business	
Spyros Pagratis - Athens University of Economics and Business	25
Use of Performance Measurement System to Motivate Employees Within Asian Banks	
Hien Hoang - Victoria University of Wellington	
Binh Bui - Victoria University of Wellington	26
Is the CAPM Theory Still Alive in France CDS Market?	
Jiajin Yang - Insurance Department, Economics School, Nankai University	
Mengyang Lin - Duke University	
Liuling Li - Economics School, Nankai University	
Bruce Mizrach - Rutgers University	27
Accrual Based and Real Activities Based Earnings Management Behavior of Family Firms in Japan	
Tai-Yuan Chen - Hong Kong University of Science and Technology	
Zhaoyang Gu - Chinese University of Hong Kong	
Keiichi Kubota - Chuo University	
Hitoshi Takehara - Waseda University	28
Cross-Border Mergers and Acquisitions and Default Risk	
Hardjo Koerniadi - Auckland University of Technology	
Chandrasekhar Krishnamurti - University of Southern Queensland	
Alireza Tourani-Rad - Auckland University of Technology	29
Derivatives and Non-Financial Companies: Lessons from the Financial Crisis	
Rodrigo Zeidan - Fundação Dom Cabral	30
Customers' Perspectives on Green Banking Practices: An Exploratory Study on State Bank of India	
Gobinda Deka - CKB Commerce College, Jorhat, Assam	31
Reporting Bias in Private Equity: Reporting Frequency, Endowments and Governance	
Sofia Johan - York University - Schulich School of Business	
Minjie Zhang - York University-Schulich School of Business	32
DETERMINANTS OF LOAN AGREEMENT IN ASIA-PACIFIC	
Jemmy Gunawan - Universitas Surabaya	
Deddy Marciano - Universitas Surabaya	
James Bartle - University of New South Wales & Binus Business School	33
Sovereign Wealth Fund's role in the world capital market	
Roberto PASCA DI MAGLIANO - Sapienza University of Rome (Italy)	34
Diversification, Organization, and Value of the Firm	
Tatsuo Ushijima - Aoyama Gakuin University	35
High Frequency Trading and End-of-Day Price Dislocation	
Douglas Cumming - York University Schulich School of Business	
Feng Zhan - John Carroll University Boler School of Business	
Michael Aitken - University of New South Wales Australian School of Business	36
Efficiency of The G8 Stock Markets before and after Global Financial Crisis in 2008	
Joao Paulo Vieito - Polytechnic Institute of Viana do Castelo	
Wing-Keung Wong - Hong Kong Baptist University	
Zhenzhen Zhu - Hong Kong Baptist University	37

Analytic Redefinition of DOL and Managerial Investment Decision	
Yoram Kroll - Ono Academic College (OAC)- Israel	
David Aharon - Ono Academic College (OAC)- Israel	38
Validation of Certification Hypothesis in Indian IPO Market	
Supriya Katti - Indian Institute of Technology Kanpur	
B.V. Phani - Indian Institute of Technology Kanpur	39
ASSESSING ABNORMAL RETURNS: THE CASE OF CHINESE M&A ACQUIRING FIRMS	
Xiaojing Song - University of East Anglia	
Mark Tippet - University of Sydney, Australia and Victoria University of Wellington, New Zealand	
Andrew Vivian - Loughborough University	40
The Politicization of the Corporate Governance and Spanish Savings Banks Default	
Lourdes Torres - University of Zaragoza	
Vicente Pina - University of Zaragoza	
Patricia Bachiller - University of Zaragoza	41
Macro-Finance Determinants of the Long-Run Stock-Bond Correlation: The DCC-MIDAS Specification	
Hossein Asgharian - Lund University	
Charlotte Christiansen - Aarhus University	
Ai Jun Hou - Stockholm University	42
The EMU Crisis : A Proposals to Address It	
Antimo Verde - Tuscia University	43
A Critical Evaluation of the New Zealand and the German Corporate Bond Market	
Larissa Perle - Eastern Institute of Technology	
Noel Yahanpath - Eastern Institute of Technology	
Anita Aitken-Taylor - Partner/Financial Advisor	44
Technical and Scale Efficiencies of Indian Banks using Decision Tree Approach to Factor Selection	
Ravi Jain - Icfai Business School (IBS) - Hyderabad Campus, IFHE University	
Ramachandran Natarajan Ramachandran Natarajan - College of Business, Tennessee Technological University	
Amlan Ghosh - Icfai Business School (IBS) - Hyderabad Campus; IFHE University	45
CEO Compensation and Macroeconomic Fluctuations in Risk Taking Incentives	
Hsin-Hui Chiu - California State University Northridge	
Lars Oxelheim - Lund University and Research Institute of Industrial Economics	
Clas Wihlborg - Chapman University	
Jianhua Zhang - University of Gothenburg	46
Explanatory Factors of the Capital Structure in Public and Private Firms	
Ignacio García de Olalla - BI Norwegian Business School	47
Buybacks Around the World	
Alberto Manconi - Tilburg University	
Urs Peyer - INSEAD	
Theo Vermaelen - INSEAD	48
The Impact of Economic Agents Perceptions on Stock Price Volatility	
Jaroslav Bukovina - Mendel University	49

The Equity Premium and Its Behavioral Determinants, a “Re-think”	
Minh Hai Ngo - Uni-Trier	
Marc Oliver Rieger - Uni-Trier	50
Clustering Real Estate Investment Trusts: Brazil versus United States	
Fernanda Sousa Gabriel - Universidade Federal de Uberlândia	
Karem Cristina de Sousa Ribeiro - Universidade Federal de Uberlândia	
Pablo Rogers - Universidade Federal de Uberlândia	51
Gold Exchange Traded Funds: Global Scenario (With a special emphasis on Indian Gold Exchange Traded Funds)	
Prof. (Mrs) Prashanta Athma - Osmania University	52
Effect of Interbank Relationships on Execution Costs in Over-the-Counter Debt Markets	
George Issa - University of Sydney	
Elvis Jarnecic - University of Sydney	53
ROLE OF OMBUDSMAN IN BANKING SERVICE A STUDY ON PRESENT GLOBAL SCENARIO	
SEKHAR INDRAKANTI - OSMANIA UNIVERSITY HYDERABAD AP.	54
OVERCONFIDENCE, RISK TOLERANCE AND INVESTMENT STRATEGY ADOPTION OF CAPITAL MARKET INVESTORS	
MAKESH K.G - Govt. College, Mokeri	
MINIMOL M.C - Rajagiri centre for business studies	55
A STUDY ON FACTORS INFLUENCING CAPITAL STRUCTURE OF PHARMACEUTICAL COMPANIES LISTED ON THE KARACHI STOCK EXCHANGE	
Hamid Jamal Zubairi - Institute of Business Management	
Shazia Farooq - Institute of Business Management	56
Time-series and cross-sectional momentum strategies under alternative implementation strategies	
Ron Bird - University of Technology Sydney	
Xiaojun Gao - Waikato University	57
Ownership Structure and Stock Returns	
Nicolas Eugster - Université of Fribourg	58
Predatory short-selling and covering around pre-announced deletions from index composition: Evidence from the Nikkei 225 Index deletions	
Hidetomo Takahashi - ICES, Hosei University	
Peng XU - ICES, Hosei University	59
The Governance of Perpetual Financial Intermediaries	
Jos van Bommel - University of Luxembourg	
Jose Penalva - Universidad Carlos III	60
Financial Integration and Growth in a Risky World	
Nicolas Coeurdacier - SciencesPo	
Helene Rey - London Business School	
Pablo Winant - Paris School of Economics	61
FOREIGN DIRECT INVESTMENT : THE DOUBLE TAXATION AVOIDANCE AGREEMENT (DTAA) BETWEEN INDIA AND MAURITIUS -From a Mauritian Perspective-	
RAJENDRA PARSAD GUNPUTH - UNIVERSITY OF MAURITIUS	62
The Role of Price Connectors A Study on the Market Segmentation in Chinese Stock Markets	

Yun Feng - Shanghai Jiao Tong University	
Chongfeng Wu - Shanghai Jiao Tong University	
Jianhua Zhang - University of Gothenburg	63
The Cointegration Analysis of the Long-term Bond Rates in Japan under the Zero Lower Bound Problem	
Shohei Ishibashi - Osaka Sangyo University	64
THE DECLINE OF PARTNERSHIPS AND RISE OF CLUB GOOD STRUCTURES IN INVESTMENT BANKING	
W. Travis Selmier II - Indiana University, Ostrom Workshop in Political Theory and Policy Analysis	65
The Managerial Ownership Impact on Bank Performance and Risk: Evidence from Kazakh banks listed in Bloomberg	
Gulnara Moldasheva - KIMEP University	66
Does Stock Price Informativeness affect Labor Investment Efficiency?	
Hamdi Ben-Nasr - King Saud University	
Abdullah A. Alshwer - King Saud University	67
The Monitoring of Short Selling: Evidence from a Natural Experiment	
Xiaohu Deng - University of Memphis	
Lei Gao - University of Memphis	68
Manipulations of Libor and other reference rates: Assessing the impact on interest rate derivative markets	
Ralf Meyer - EBS University	69
Calculating the default probability of Russian innovative companies: the need to correct the standard techniques	
Alexander Borochkin - Lobachevsky State University of Nizhni Novgorod	70
Does Cash Contribute to Value? A Comparison of Constrained and Unconstrained Firms in China and Germany	
Wei Zhang - University of Groningen	
Henk von Eije - University of Groningen	
Wim Westerman - University of Groningen	71
An Empirical Investigation of Asymmetric Volatility and Trading Volume Relationship in the Indian Stock Market	
Pramod Kumar Naik - Indian Institute of Technology Bombay	
Puja Padhi - Indian Institute of Technology Bombay	72
DYNAMIC NOISY RATIONAL EXPECTATIONS EQUILIBRIUM WITH ANTICIPATIVE INFORMATION	
JEROME DETEMPLE - BOSTON UNIVERSITY	
MARCEL RINDISBACHER - BOSTON UNIVERSITY	
THU TRUONG - BOSTON UNIVERSITY	73
Undesirable Outputs and Banking Efficiency in Colombia: A directional distance Functions Approach	
Camilo Almanza - Universidad del Norte	
Jose Ramos - Universidad del Norte	74
Does investor sentiments explained the observed seasonality of overreaction?	
Rafiq Raji - Wits Business School	
Kalu Ojah - Wits Business School	75

Ownership structure, dividend policy and dual-class shares: a study of Russian public companies	
Irina Berezinets - Graduate School of Management, SPSU	
Yulia Ilina - Graduate School of Management, SPSU	
Lyudmila Alekseeva - ZAO PricewaterhouseCoopers Audit	76
Banks' activities and their risk. Does it exist an optimal model in banking?	
Aneta Hryckiewicz - Goethe University of Frankfurt; Kozminski University	77
Explanatory Co-movement in Asset Prices with Minimal Dependence Structures	
Aparna Gupta - RPI	
Pablo de Carvalho - RPI	78
Exchange Rate Based Policy Coordination in the Southern African Development Community towards Monetary Union	
Mulatu Zerihun - University of Pretoria	
Martinus Breitenbach - University of Pretoria	
Francis Kemegue - Framingham State University and University of Pretoria	79
Institutional Quality, Trust and Stock Market Participation: Learning to Forget	
Hossein Asgharian - Lund University	
Lu Liu - Lund University	
Frederik Lundtofte - Lund University	80
The 'Backus-Smith' Puzzle, Non-tradable Output, and International Business Cycles	
Soojae Moon - University of Colorado Denver	81
The Influence of Market States on Security Returns	
Warren Thomson - Griffith University	
Graham Bornholt - Griffith University	82
Diversification versus Concentration . . . and the Winner is?	
Danny Yeung - University Of Technology Sydney	
Paolo Pellizzari - University of Venice	
Ron Bird - Paul Woolley Centre, University of Technology Sydney and School of Management, Waikato University	
Sazali Abidin - School of Management, Waikato University	83
LONG-TERM AND SHORT-TERM WEALTH EFFECTS OF ASIAN BANKS' M&A	
Yoko Shirasu - Aoyama Gakuin University	84
Rights Offerings, Transferability, Standby Status and Audit Quality	
Balasingham Balachandran - La Trobe University	
Robert Faff - University of Queensland	
Huong Giang (Lily) Nguyen - La Trobe University	
Premkanth Puwanenthiren - La Trobe University	85
Risk premium, price multiples, and 'reverse yield' gap	
Yoshitaka Fukui - Graduate School of International Management, Aoyama Gakuin University	
Naoki Kamiyama - Merrill Lynch Japan Securities Co., Ltd.	86
Corruption Risk in the Defence Industry around the World: Country Level and Firm Level Antecedents	
Domenico Pensiero - University of Southern Queensland (USQ)	
Chandrasekhar Krishnamurti - University of Southern Queensland (USQ)	
Eswaran Velayutham - University of Southern Queensland (USQ)	87

Investment Behavior under Uncertainty in Number of Competitors	
Taejin Kim - The Chinese University of Hong Kong	
Vishal Mangla - Moody's Analytics	88
SPACs with focus on China	
Yochanan Shachmurove - City College of the City University of New York	
Milos Vulcanovic - City University of Hong Kong	89
Key Determinants of German Banking Sector Performance	
Ali Nasserinia - University Putra Malaysia	
Mohamed Ariff - Bond University	
Fan Fah Cheng - University Putra Malaysia	90
Prestige without Purpose? Reputation, Differentiation, and Pricing in U.S. Equity Underwriting	
Chitru S. Fernando - University of Oklahoma	
Vladimir A. Gatchev - University of Central Florida	
Anthony D. May - Wichita State University	
William L. Megginson - University of Oklahoma	91
One Approach to Resolve the Exchange Rate Puzzle	
Mohamed Ariff - Bond University/University Putra Malaysia	
ALIREZA ZAREI - University Putra Malaysia	92
Special Risk Rights Model as Alternative to Basel III Countercyclical Buffer Approach	
Henry Penikas - National Research University Higher School of Economics	
W. Travis Selmier II - Department of Political Science, Indiana University	
Kseniia Vasileva - National Research University Higher School of Economics	93
Stock Return Decomposition: Are they consistent with the CAPM?	
Ye Bai - University of Nottingham	
Christopher Green - Loughborough University	94
MERGER AND ACQUISITIONS IN THE INDIAN BANKING SECTOR – A STUDY OF ICICI BANK Ltd. and STATE BANK OF INDIA	
Dr. RAVI KUMAR JASTI - OSMANIA UNIVERSITY	95
Factors of Profitability in Islamic Banking - Difference between MENA and ASEAN countries	
Ulaganathan Subramanian - Institut Teknologi Brunei	
Ahmad Nazri Wahidudin - Institut Teknologi Brunei	
Abdull Mutallib Kamaluddin - Institut Teknologi Brunei	
Mohamad Zawawi Bahari - Institut Teknologi Brunei	96
Momentum effect on the Russian stock market. Whether emerging markets are not profitable for Momentum Strategies	
Tamara Teplova - National Research University –Higher School of Economics	
Evgeniya Mikova - National Research University –Higher School of Economics	97
Do Banks Learn from Financial Crises? – The Nordic Experience in Two Decades' Perspective	
Tom Berglund - Hanken School of Economics	
Mikko Mäkinen - Aalto University, School of Economics	98
Impact of Bonus Issue Announcement on select IT Scrips in Indian Stock Market	
KAPIL ARORA - JK LAKSHMIPAT UNIVERSITY	99

Valuing unlisted infrastructure debt	
Frederic Blanc-Brude - EDHEC Business School	
Majid Hassan - EDHEC Business School	
Omneia Ismail - EDHEC-Risk Institute	100
Globalization and Corporate Value Creation: The Evidence from Emerging Capital Markets of BRIC	
Irina Ivashkovskaya - National Research University - Higher School of Economics	
Dmitry Shcherbakov - PricewaterhouseCoopers	
Dmitry Shvetsov - National Research University - Higher School of Economics	101
The Effect of Political Risk on The Process of Generating Stock Returns : A Study Examming Stock Exchanges in Middle East	
DOGAN ALTUNER - YASAR UNIVERSITY	102
The Impact of Co-location on Dual-Listed Futures Markets: Evidence from the Singapore Exchange	
Esther Yoon Kyeong Lee - University of Sydney	
Angelo Aspris - University of Sydney	103
FUND CHARACTERISTICS AND THEIR IMPACTS ON THE PERFORMANCE OF ASIAN HEDGE FUNDS: AN APPLICATION OF OMEGA RATIO.	
Thi Phuong Lan Nguyen - Multimedia University	104
Malaysian Economic Inertia: A Self-Inflicted Limitation to Future Growth	
FIREND RASHEED - UNIVERSITI TEKNOLOGI MALAYSIA	105
Financial Service Innovation in Hungary	
Eva Pinter - University of Pecs Faculty of Business and Economics	106
Emergence of Sovereign Wealth Funds	
Wessel Vermeulen - University of Oxford	
Jean-Francois Carpentier - University of Luxembourg	107
ASSETS & LIABILITY SENSITIVITY IN INDIAN BANKS – A STUDY OF SELECT BANKS	
VEENA DHARMAPURI - KAKATIYA UNIVERSITY	
BHAVANIPRASAD G.V - KAKATIYA UNIVERSITY	108
Gold Exchange Traded Funds and Price Discovery - An econometric analysis	
Narend S - Indian Institute of Technology, Madras	
Thenmozhi M - Indian Institute of Technology, Madras	109
What Do Your Employees Know About Risk Management? A Revealing Field Trip Beyond Financial Risks.	
Michael Schwandt - University of Miskolc	110
Single versus Multiple Banking Relationship in Chinese Lending Market-Indictors of Firm's Size, Quality or Market Competition?	
WEI YIN - Cardiff Business School, Cardiff University	
Kent Matthews - Cardiff Business School, Cardiff University	111
Earning Management and Its Influence on Dividend Policy of Small and Medium Enterprises in Thailand: Empirical Evidence from Listed Companies in Market for Alternative Investment (MAI)	
SUPACHET CHANSARN - School of Economics, Bangkok University	
THANYAKORN CHANSARN - School of Accounting, Bangkok University	112

Beta Estimation in Indian Stock Markets - Some Issues	
Mihir Dash - Alliance University	113
The Euro Crisis - A Look at What Went Wrong	
Poorna Pal - Glendale Community College	
Sarkis Khoury Khoury - University of California Riverside (Retired)	
Clas Wihlborg - Chapman University	114
Whence the Privatized Firm Pay-out Premium?	
Abhinav Goyal - University of Liverpool	
Shrikant Jategaonkar - Southern Illinois University	
William L. Megginson - University of Oklahoma	
Cal Muckley - University College Dublin	115
Investor Relations' Value Relevance?The Case of Chinese and American Listed Companies	
Kang Liu - Center of Development Studies, University of Cambridge	
Xin Tao - Center of Development Studies, University of Cambridge	116
OTC Derivatives: Impacts of Regulatory Changes in the Non-Financial Sector	
Gustavo Araujo - Central Bank of Brazil	
Sergio Leao - Central Bank of Brazil	117
Board Structure and Firm Performance: Evidence from Russian Public Companies	
Yulia Ilina - Graduate School of Management, SPSU	
Irina Berezinets - Graduate School of Management, SPSU	
Anna Cherkasskaya - L'Oreal (Russia)	118
How are Banks Valued? An Examination of Research Reports in Europe	
Jose Velasco - International School of Management	
K. Matthew Wong - St. John's University, NY	119
Financial reform and the efficiency of China's banking sector	
Cheng Hsiao - University of Southern California	
Yan Shen - Peking University	
Wenlong Bian - Peking University	120
Signaling and Bank Lending	
Kin Sio FONG - Faculty of Business Administration, University of Macau	
Rose Neng LAI - Faculty of Business Administration, University of Macau	121
Real Effective Exchange Rate and the Transitional Economy of Republic of Macedonia	
Irena Vodenska - Boston University	
Nikola Runchev - Ministry of Finance	122
Measuring Long-Term Performance: The Case of the Korean Chaebol	
Yong Yoon - Chulalongkorn University	
Keun Kwan Ryu - Seoul National University	123
Dynamic Stochastic General Equilibrium in Monte Carlo Simulations	
Ricardo Luis Chaves Feijó - University of São Paulo - College of Economics, Business and Accounting	124
The Role of Banks in Venture Financing	
KAZUO YAMADA - Ritsumeikan University	
Keiichiro Koda - Hiroshima University of Economics	125
Modelling Returns and Volatilities During Financial Crises: a Time Varying Coefficient Approach	
Menelaos Karanasos - Brunel University	

Alexandros Paraskevopoulos - University of Patras	
Faek Menla Ali - Brunel University	126
Impact of Higher Capital Requirements on Cost of Capital: Evidence from European Banks	
Armen Arakelyan - CUNEF	
Artashes Karapetyan - Central Bank of Norway	127
Optimal Fiscal and Monetary Policy with Heterogeneous Agents and Nonlinear Income Taxation	
Xi Wu - Texas A&M University	
Yulei Peng - University of Arkansas	
Dennis Jansen - Texas A&M University	128
The Impact of Closing Islamic Windows within the Conventional Banks on Qatar Banking System Performance	
Mohamad Maher Eladawi - Qatar University	
Dr. Mohammed Elgammal - Qatar University	
Abdul Ahad Abdul Basith - Qatar University	129
Post Mergers and Acquisitions Performance: Review of Research Studies	
N.M. Leepsa - NIT Rourkela	
C.S. Mishra - IIT Kharagpur	130
The Organization of Bank Affiliates; A Theoretical Perspective on Risk and Efficiency	
Elisa Luciano - Collegio Carlo Alberto and University of Torino	
Clas Wihlborg - Chapman University	131
Understanding Commodity price behaviour in Agriculture: A model with volatility	
Yogesh Bhatt - Institute of Economic Growth Delhi	
Rajeshwor Mayanglambam - Institute of Economic Growth Delhi	
Neeraj Tiwari - Kumaun University, Almora	
Nilabja Ghosh - Institute of Economic Growth Delhi	132
SME LENDING DECISIONS – THE CASE OF UK AND GERMAN BANKS: AN INTERNATIONAL COMPARISON.	
Anthony Stevenson - JCU Singapore	133
Neural network versus Logistic regression: the best accuracy in predicting credit rationing decision	
wafa sayeh - university of Cergy Pontoise	
annie bellier - university of Cergy Pontoise	134
LOSS AVERSION, FAMILIARITY BIAS AND ANCHORING: A STUDY ON BEHAVIOURAL ANOMALIES AMONG CAPITAL MARKET INVESTORS	
MINIMOL M.C - Rajagiri Centre for Business Studies	
Makesh K.G - Government College, Mokeri	135

Can Real Option Help Explain The Relationship Between Cash Holding and The Economy?

Jiun-Lin Chen
University of Adelaide, Australia
alex.chen@adelaide.edu.au

Zi Jia
Louisiana State University, United States
zjia1@lsu.edu

Ping-Wen Sun
Jiangxi University of Finance and Economics, China
sunpingwen@gmail.com

Abstract

We use empirical real option proxies – book to market ratio, idiosyncratic volatility, and return on asset to examine the phenomenon that stocks with higher cash holdings earn higher future returns. Specifically, we regress a firm's cash holding on its real option proxies and define the predicted value as the firm's real option component of cash holding. We find that the change in firms' aggregate real option component of cash holding negatively correlates with the concurrent and one quarter ahead GDP growth rate. In addition, stocks with more negative sensitivity to innovation of the aggregate real option component of cash holding earn higher future returns. We construct a real option related cash holding factor (most negative factor loading portfolio minus highest factor loading portfolio) and show that this factor can subsume the abnormal returns earned by higher cash holding firms from the CAPM model. Our empirical results suggest that firms with higher cash holding are more sensitive to innovation in aggregate real option component of cash holding and therefore earn higher future returns.

Analysis for the Correlation Between Fama-French Portfolios by a VAR-GARCH Model with non-Normal Margins

Yanjia Yang
Nankai University, China
yanjia_yang@yahoo.com

Jiayi Zhu
Nankai University, China
zhujiayi1130@126.com

Liuling Li
Nankai University, China
liliuling@nankai.edu.cn

Abstract

This paper analyzes the correlation between Fama-French portfolios with the model of Zhu and Li(2013). Parameters are estimated by Maximum Likelihood Estimation (MLE). Sample period is from 1926 to 2011. Likelihood Ratio test (LR) is employed for testing parameter restrictions. Kolmogorov-Smirnov test (KS) is applied to check the residuals. Models are compared by Akaike Information Criterion (AIC). Results show the model can capture the skewness, fat tailness and asymmetric kurtosis of US stocks. And this model performs better than VAR-GARCH model of Bauwens(1997) by AIC. With GARCH-type volatility and non-Normal error such as SSAEPD, the estimate of correlation parameter is more close to the one calculated in descriptive statistics.

The Value of Corporate Coinsurance to the Shareholders of Diversifying Firms: Evidence from Marginal Tax Rate

Hyeongsop Shim

Ulsan National Institute of Science and Technology, South Korea

hshim@unist.ac.kr

Abstract

Comparing the wealth change to shareholders around merger announcement, we test whether conglomerate mergers produce higher gains to shareholders due to corporate coinsurance than horizontal mergers. Conglomerate mergers show higher bidder, target, and size-weighted average of bidder and target marginal tax rate than horizontal mergers on average. The higher marginal tax rates in conglomerate mergers provide extra returns to combined shareholders. Investigating the change in leverage and cash holdings after merger completion, we find higher marginal tax rates of diversifying mergers help the consolidated firm to reduce cash holdings more but they do not have an impact on the leverage change.

Cascading Defaults and Systemic Risk of a Banking Network

Changhao Zhang
National University of Singapore, Singapore
changhao@nus.edu.sg

Jin-Chuan Duan
National University of Singapore, Singapore
bizdj@nus.edu.sg

Abstract

Systemic risk of a banking system arises from cascading defaults due to interbank linkages. We propose a model which distinguishes systemic risk from its drivers - systematic and idiosyncratic risks. Systemic risk is characterised by systemic exposure and systemic fragility, corresponding to the expected losses and pervasiveness of defaults respectively (under a stress scenario). The model takes into account the banking network, asset-liability dynamics, inter-bank exposures and netting. Using actual data for 15 British banks, we find that systematic shocks are more likely to drive systemic risk, as opposed to banks idiosyncratic elements. We also demonstrate a method for ranking banks according to systemic importance.

Were Stocks More Volatile during the Global Financial Crisis?

Sazali Abidin

The University of Waikato, New Zealand

sazali@waikato.ac.nz

Azilawati Banchit

Universiti Teknologi Mara, Malaysia

azila@sarawak.uitm.edu.my

Junqi Wu

The University of Waikato, New Zealand

jw270@waikato.ac.nz

Abstract

This research project empirically identifies price jump phenomenon of heavily traded New Zealand stocks focusing on the period of Global Financial Crisis in 2008. Specifically, this paper tests the hypothesis that the price jump behaviour does not change during the recent financial turbulence. To achieve this goal, we selected data on realized trades for 10 stocks and one ETF (Exchange Trade Fund) from the Yahoo Finance & NZX50 database. These data span the period from January 2008 to the end of July 2009, as the Global Financial Crisis in 2008 is generally accepted to begin with the plunge of Lehman Brothers shares on September 9, 2008. We adopt three models to examine the price jump phenomenon. The results reveal an increasing overall volatility during the crisis. However, the hypothesis made above cannot be rejected, which means there was no change for the behaviour of price jump in the data during the financial crisis. Overall, it implies that the uncertainty among New Zealand stock market has increased during the crisis but the structure of the uncertainty remains the same.

Labor Protection Laws and Firm Volatility

Fatemeh Hosseini
Stockholm School of Economics, Sweden
fatemeh.hosseini@hhs.se

Abstract

This paper examines the effect of employee-protection legislation on firm's performance volatility. I use inter-temporal variations in employment protection laws across 21 OECD countries and find that pro-labor reforms are associated with an increase in the volatility of firm profitability as well as a decline in firm Return on Asset (ROA). I find no significant effect on firm sales or asset growth, suggesting that the positive relation of labor protection and firm volatility is essentially explained by higher labor cost due to less flexibility of firms in their employees contracts and dismissals. Consistent with the labor cost explanation, the paper shows that this positive relation is more pronounced in firms performing in industries where labor is more important input of production. In addition, the result is stronger for small firms with lower number of employees. These results indicate that the lack of firms' flexibility in employees contract and dismissals due to more stringent labor laws leads to higher fluctuations of firm profitability.

The impact of media on CSR

Younghan Andy Kim
Nanyang Technological University, Singapore
YHKIM@ntu.edu.sg

Jingoo Kang
Korea University, South Korea
jg20605@korea.ac.kr

Abstract

After receiving tremendous public criticism due in part to the provocative media portrayal of its CEO, in an article titled “Goldman’s boss: We do God’s work,” Goldman Sachs jumped up to rank #2 in terms of the dollar amount spent on philanthropic contributions (PC, hereafter) in 2010. Should a firm invest more in corporate social responsibility (CSR), such as PC, in response to negative public opinion about the company? Using textual analysis of one million news articles about the largest 100 firms in the US in terms of PC over 2000~2010, we find that firms strengthen their CSR performance and spend more on PC when the public opinion about their CSR is more negative with intensive media coverage. Moreover, the firms with higher ownership by long term oriented institutional investors (Bushee, 1998) spend more on PC. In further analysis, we find that negative tone in CSR news about the firm reduces its product market share.

The Disturbing Interaction between Countercyclical Capital Requirements and Systemic Risk

Balint Horvath
Tilburg University, Netherlands
b.l.horvath@uvt.nl

Wolf Wagner
Tilburg University, Netherlands
wagner@uvt.nl

Abstract

We present a model in which flat (cycle-independent) capital requirements are undesirable because of shocks to bank capital. There is a rationale for countercyclical capital requirements that impose lower capital demands when aggregate bank capital is low. However, such capital requirements also have a cost as they increase systemic risk taking: by insulating banks against aggregate shocks (but not bank-specific ones), they create incentives to invest in correlated activities. As a result, the economy's sensitivity to shocks increases and systemic crises can become more likely. Capital requirements that directly incentivize banks to become less correlated dominate countercyclical policies as they reduce both systemic risk-taking and procyclicality.

Impact and Response of Asian Debt Crisis and Global Imbalances of Emerging Market Economies

Thanet Wattanakul
Khon Kaen University, Thailand
thanetwat@hotmail.com

Abstract

This chapter aims to examine and describe the impact and response of Asian debt crisis and global imbalances particularly of emerging market economies. It is necessary to explain the related backgrounds to address the objective. These backgrounds consist of Asian debt crisis, current global imbalances situation and importance of emerging market driven economies. The content of impact and response of Asian debt crisis and global imbalances of emerging market economies will be also discussed. Furthermore, the effective policy implementation is suggested to tackle the problems. In addition, the perforation and role of regional economic integration especially in the ASEAN region as ASEAN Economic Community (AEC) will be included. This is possible instrument to develop the economic integration level of this region to be deep economic integration as single market to decrease the global economy imbalances and accelerate mutual benefits.

Herding Behavior In the Indonesian Stock Exchange: The Roles and Contributions of Foreign Investors During The Period 2006 to 2011

Roni Setyawan

University of Tarumanagara, Indonesia

ignronis@gmail.com

Ishak Ramli

University of Tarumanagara, Indonesia

ishram_01@yahoo.com

Abstract

Domestic investors in the Indonesian capital market (IDX) growing niche to be very depend on the behavior of foreign investors (Panggabean, 2006). It is assumed that most of the domestic investors in the IDX would have been doing this, by the caused by an axiom that the bargaining position of foreign investors is stronger than the domestic investors and other emerging markets [Chen (2001) and Wei, et al. (2009)]. This study try to investigate whether the herd behavior is exist and whether the assumption that the foreign investors have the market by the caused instability [Neal, et al. (2002) and Wang (2000)], is true or just a myth, during the period 2006-2011. There are three objectives of the study: 1) To prove whether the conduct domestic investors herding behavior in IDX 2) To prove whether the trading of foreign investors cause the herding behavior 3) To prove whether the foreign and domestic investors affect the stock volatility. Trading Using the data from 2006 to 2011 it is found the existence of herding behavior in IDX, and moreover using VAR analysis, it also indicates that the occurrence of herding behavior by the caused by negative feedback trading from foreign investors. The volatility analysis using Parkinson and Garman-Klass methods, found the stock volatilities in IDX increased by the caused by the interaction of foreign and domestic investors.

Profitability and Capital Structure – International Cross-Size and Cross-Industry Evidence from the EU Countries

Julia Koralun-Bereżnicka
University of Gdańsk, Poland
jkb@wzr.ug.edu.pl

Abstract

Profitability is considered as one of the microeconomic determinants of corporate capital structure. However, according to the capital structure theories and empirical research in the field, the direction of the relationship between the level of debt and profitability is not obvious. This study aims at verifying the significance and the direction of the way profitability affects capital structure on a sample of private firms across 9 EU countries. It contributes to the existing research by exploring the relationship in three cross-sections: across industries, across size groups of firms and across countries. In the theoretical part of the paper, literature review is presented on the profitability as a determinant of financial leverage. In the empirical part the correlation between several capital structure ratios and profitability measures is examined in order to find out how the country-specific factors, industry specificity and the factors related to firm size influence this relationship in the period 2000-2010. Multivariate regression models are estimated for clusters of similar countries, industries and size groups. The data is provided by the BACH-ESD database published by the European Commission. The differences observed between the correlation signs across countries, industries and size groups indicate that the way profitability influences financial leverage is affected by macroeconomic and firm-specific factors.

The United States Shutdown -- An Economic Powerhouse in Debt's Stranglehold?

Carsten Croonenbroeck
European University Viadrina, Germany
croonenbroeck@europa-uni.de

Abstract

The 2013 US shutdown had had its roots in the entire preceding year, at least. Despite the fact that the shutdown's main reason is the fundamental debt crisis, the shutdown itself seemed to have been more of a justification for a political power game among republicans and democrats. However, among many real economic consequences, the crisis is suspected to have had an impact on US government bonds. In this paper we use the reversed news model to analyze whether the crisis and news related to it had had an influence on short-term bonds, i.e. treasury bills (T-Bills).

The Costs of Bank Equity Offerings in Response to Strengthened Capital Regulation

Katsutoshi Shimizu
Nagoya University, Japan
shimizu@soec.nagoya-u.ac.jp

Peng Xu
Hosei University, Japan
pxu@hosei.ac.jp

Abstract

This paper studies bank new equity offerings in response to recently strengthened Basel capital regulation. Our empirical analyses investigate the determinants of issuing new equity and estimate its costs in sample selection model. The key finding is that weak capital base is one of the key driving forces of new issuance around the recently strengthened Basel regulation, though the banks were not capital deficient relative to the current regulatory minimum. In sharp contrast to the earlier studies, our empirical analyses provide supportive evidence for our penalty-aversion hypothesis. The Japanese bank managers recognize the inconveniences associated with the regulators' interventions and intend to shirk the costs of such restrictions on policies and actions when banks fail the regulatory requirements in the future. Consistently with this hypothesis, our empirical analyses also show that announcements of new equity issuance were associated with statistically significant negative abnormal returns. Bank equity offerings in response to strengthened regulation convey negative information on the risks of capital shortfall or associated costs of future interventions. Our results show that announcement returns associated with penalty-aversion issuing are greater than the returns associated with issuing for the repayment of governmental funds, the returns associated with timing-discretion issuing, or the returns associated with pure signaling issuing of the non-bank firm. Finally, we examine the determinants of adjusting capital ratio through asset contraction as well as recapitalization, using the estimated costs of recapitalization. Our results show that bank manager is more likely to choose the adjusting mean whose deviation from the industrial average is greater. However, the results imply that the issuing banks use the asset contraction complementally with recapitalization.

Bank Liquidity Risk Diversification

Nikolas Topaloglou

Athens University of Economics and Business, Greece

nikolas@aub.gr

Spyros Pagratis

Athens University of Economics and Business, Greece

spagratis@aub.gr

Abstract

Central to the financial intermediation role of banks is their ability to constantly balance sources and uses of funds in the face of liquidity shocks. In this paper we develop a stochastic dominance efficiency model for liquidity risk diversification in a Lehman-type stress scenario, in line with Basel III rules. The model yields a rank-ordering of assets and liabilities in terms of liquidity contributions, taking into account profitability and capital adequacy constraints, while at the same time it defines an optimal liquidity coverage ratio. Differences in the rank-ordering arise when separating banks by size. Large banks turn out to be more self-insured against the upcoming liquidity shock prior to the Lehman crisis, while small banks could improve their self-insurance by holding more government securities and less agency MBS. Small time deposits support funding liquidity the most, while demand deposits the least. The results also indicate that a minimum liquidity coverage ratio of 1 under Basel III is a too lenient liquidity standard.

Use of Performance Measurement System to Motivate Employees Within Asian Banks

Hien Hoang

Victoria University of Wellington, New Zealand

hien.hoang@vuw.ac.nz

Binh Bui

Victoria University of Wellington, New Zealand

binh.bui@vuw.ac.nz

Abstract

This study uses psychology theory to explore how managers use performance measurement system (PMS) to induce behavioural change in employees. Based on interviews with 14 Indonesian senior bankers, the results suggest that PMS improves employees' task and goal cognition, and intrinsically motivates them by creating habit, promoting comfortable working environment and healthy competition. Employees are also extrinsically motivated due to PMS producing rewards and punishments, making employees ashamed for poor performance, and including non-financial behavioral aspects in performance goals. The most significant is how the perceptions of fairness and shame are enacted through multiple PMS uses and processes. These findings are likely to have significant implications for managers in designing and implementing PMS to maximise employees' efforts and performance.

Is the CAPM Theory Still Alive in France CDS Market?

Jiajin Yang

Insurance Department, Economics School, Nankai University, China

Cathyayangnk@gmail.com

Mengyang Lin

Duke University, United States

sunnylinmy@163.com

Liuling Li

Economics School, Nankai University, China

liliuling@nankai.edu.cn

Bruce Mizrach

Rutgers University, China

mizrach@econ.rutgers.edu

Abstract

The CAPM theory of Sharpe(1964), Lintner(1965) and Mossin(1966) is empirically tested with models. MLE is used to estimate parameters. France CDS market (2004:06-2010:03) is analyzed. The model with SSAEPD error and GARCH-type Volatility is the best. The CAPM theory is not alive in France CDS market. The Subordinate CDS's Beta values are smaller than those of senior ones. The integrated relationship used in the RiskMetrics model of J.P. Morgan company is documented.

Accrual Based and Real Activities Based Earnings Management Behavior of Family Firms in Japan

Tai-Yuan Chen

Hong Kong University of Science and Technology, Hong Kong, China

taiyuan.chen@ust.hk

Zhaoyang Gu

Chinese University of Hong Kong, Hong Kong, China

zygu@cuhk.edu.hk

Keiichi Kubota

Chuo University, Japan

kekubota@tamacc.chuo-u.ac.jp

Hitoshi Takehara

Waseda University, Japan

takehara@waseda.jp

Abstract

We explore the degree of accrual-based earnings management and real activities based earnings management, using data of all family and non-family firms listed on the Tokyo Stock Exchange from 2004 through 2011. A priori family firms are expected to have lower agency cost because family shareholders and management will be more congruent in pursuing mutual firm goals. A founding family will also pay attention to the reputation of their firm and family in order to sustain socioemotional wealth. We empirically assess the level of earnings management and investigate whether the amount will be lower for family than non-family firms, and also identify which method is more costly. The level of accruals and cost may vary among the type of the family firms; that is, whether or not shareholdings are large and if the CEO is from the founding family. With univariate analysis we find that the level of accrual-based earnings management measures is higher for family than non-family firms for some selected measures, while real activities measures are lower for family than non-family firms. With cross section regressions, we find that shares owned by a founding family increase the level of accrual-based earnings management, while the CEO dummy variable decreases it. For the level of real activities earnings management, we find that family related variables decrease it. When we introduce economic measures related to costs of earnings management: i.e., the choice of an auditor, the number of following analysts, the length of operating cycles, market share, estimated distance to default, and effective tax rates, we find that Japanese family firms utilize accrual-based earnings management more often than real activities based earnings management.

Cross-Border Mergers and Acquisitions and Default Risk

Hardjo Koerniadi

Auckland University of Technology, New Zealand

hkoernia@aut.ac.nz

Chandrasekhar Krishnamurti

University of Southern Queensland, Australia

Alireza Tourani-Rad

Auckland University of Technology, New Zealand

Abstract

Using a cross-country sample of mergers and acquisitions, we examine the role of cultural, institutional, geographic and managerial factors on post-merger default risk. Our results are consistent with the asymmetric hypothesis that managers take advantage of the overvaluation and volatility of their firm stock prices. We also find that geographic distance and industrial diversification play significant roles in affecting post-merger default risk. We find limited evidence indicating the relevance of institutional quality and culture on default risk.

Derivatives and Non-Financial Companies: Lessons from the Financial Crisis

Rodrigo Zeidan
Fundação Dom Cabral, Brazil
rodrigo.zeidan@fdc.org.br

Abstract

The paper identifies failures of corporate governance that allow non-financial companies around the world to develop hedging strategies that lead to hefty losses in the aftermath of the financial crisis. The sample is comprised of 346 companies from 10 international markets, of which 49 companies (and a subsample of 13 distressed companies) lose a combined US\$18.9 billion. An event study shows that most companies that present losses in derivatives experience negative abnormal returns, including a number of companies in which the effect is persistent after a year. The results of a probit model indicate that the lack of a formal hedging policy, no monitoring to the CFOs, and considerations of hubris and remuneration contribute to the mismanagement of hedging policies.

Customers' Perspectives on Green Banking Practices: An Exploratory Study on State Bank of India

Gobinda Deka

CKB Commerce College, Jorhat, Assam, India

gobindadeka@gmail.com

Abstract

Abstract The environment and climate change are the most complicated issues the world is facing today. However, the most serious problem the human beings facing during the present days is man made environmental degradation. Hence, there have been continuous endeavors across the globe to measure and mitigate this problem caused by human activities. Conscious people are trying to make their activities 'green' today and they are taking necessary steps for the benefits of present population as well as the posterity. Banks as responsible corporate citizens are also adopting remarkable steps all over the world to address this problem. They are adopting a variety of green banking practices so that they can make little contribution towards the environment. Green practices of banks are the efforts of the banking sector to keep the environment green and to minimize the greenhouse effects. This paper discusses about customers' perspectives on the adoption and usage of various green banking practices introduced by the banks in the state of Assam in India.

Reporting Bias in Private Equity: Reporting Frequency, Endowments and Governance

Sofia Johan

York University - Schulich School of Business, Canada

sjohan@schulich.yorku.ca

Minjie Zhang

York University-Schulich School of Business, Canada

sjohan@schulich.yorku.ca

Abstract

Using PitchBook's private equity (PE) database of 5,068 PE funds from 44 countries spanning from 2000 to 2012, we show that endowments are systematically associated with less pronounced differences between unrealized returns and subsequently realized returns. Moreover, endowments receive more frequent reports from their PE funds, implying more stringent governance. The higher the reporting frequencies from a PE fund, the lower the extent to which the limited partners will receive overstated performance reports. These findings are persistent after controlling stock market conditions, legal and accounting disclosure environments, legal origins, fund and GP characteristics, Limited Partnership types as well as cultural dimensions.

DETERMINANTS OF LOAN AGREEMENT IN ASIA-PACIFIC

Jemmy Gunawan
Universitas Surabaya, Indonesia
us31143@gmail.com

Deddy Marciano
Universitas Surabaya, Indonesia
marciano@staff.ubaya.ac.id

James Bartle
University of New South Wales & Binus Business School, Australia
j.bartle@unsw.edu.au

Abstract

This study aims to investigate and analyze the interdependencies of three main variables of loan agreement. The three main variables are: collateral, maturity, and loan spread. This research is applied in Asia-Pacific corporate area between 2006 and 2010. This study aims to investigate and analyze the interdependencies of three main variables of loan agreement. The three main variables are: collateral, maturity, and loan spread. This research is applied in Asia-Pacific corporate area between 2006 and 2010. This study used two stage least square regression analysis. This research used 6 models to describe the interdependencies of collateral, maturity, and loan spread to determine the loan agreement. This study used secondary data in the Dealscan database with 548 samples of Asia-Pacific corporates in 2006-2010. This study shows interdependencies of collateral, maturity, and loan spread. This research reveals that the main variable which affects the loan agreement consideration is collateral.

Sovereign Wealth Fund's role in the world capital market

Roberto PASCA DI MAGLIANO
Sapienza University of Rome (Italy), Italy
roberto.pasca@uniroma1.it

Abstract

The aggregate total assets of all Sovereign Wealth Funds (Swf) worldwide have increased considerably yet again. Despite widespread economic uncertainty regarding the sovereign debt crisis, volatility in many world financial markets and underperformance of certain asset classes, sovereign wealth fund aggregate assets have jumped by over half a trillion dollars across 2011-2012. One of the reasons that Swf fund assets have increased by 15% in the last year is that in recent years we have seen a number of new sovereign wealth funds launched and many of these funds are now fully operational, or are gearing towards putting their capital to work. In addition, while 2009 and 2010 saw several large sovereign wealth funds being used to withdraw capital in order to balance governmental fiscal shortfalls, this activity has now tapered off. For example, as of 2012 Russia's Reserve Fund, which was drained of 50% of its assets across 2009 and had \$35bn withdrawn in 2010, has seen its assets again rise to over \$61bn due to a cash injection originating from the Russian government's 2011 surplus. Elsewhere, China's National Social Security Fund's assets under management increased to over CNY 0.9tn across the last year, and the sovereign wealth fund hopes its total assets will exceed CNY 1.5tn within the next three years.

Diversification, Organization, and Value of the Firm

Tatsuo Ushijima
Aoyama Gakuin University, Japan
ushijima@gsim.aoyama.ac.jp

Abstract

Because corporate diversification and organization coevolve, diversification discounts widely reported in the literature can be caused by organizational structure rather than the industrial scope of the firm. The present paper examines this possibility based on a large sample of Japanese firms, for which the legal (parent-subsidiary) structure of organization is easily observable. I found a significant discount for diversified firms with and without a control for organizational structure. I also found that firms with a legally segmented structure (e.g. holding companies) are discounted by the market. These diversification and organizational discounts are robust to alternative controls for endogeneity, such as firm-fixed effects and propensity-score matching. My results suggest that diversification and organization are both important determinants of firm value.

High Frequency Trading and End-of-Day Price Dislocation

Douglas Cumming
York University Schulich School of Business, Canada
douglas.cumming@gmail.com

Feng Zhan
John Carroll University Boler School of Business, United States
fzhan09@gmail.com

Michael Aitken
University of New South Wales Australian School of Business, Australia
aitken@cmcrc.com

Abstract

We show that the presence of high frequency trading (HFT) has significantly mitigated the frequency and severity of end-of-day price dislocation. The effect of HFT is more pronounced on days when end of day price dislocation is more likely to be the result of market manipulation. Moreover, the effect of HFT is more pronounced than the role of trading rules, surveillance, enforcement and legal conditions in curtailing the frequency and severity of end-of-day price dislocation. We show our findings are robust to different proxies of the start of HFT by trade size, cancellation of orders, and co-location.

Efficiency of The G8 Stock Markets before and after Global Financial Crisis in 2008

Joao Paulo Vieito

Polytechnic Institute of Viana do Castelo, Portugal

joaovieito@esce.ipvc.pt

Wing-Keung Wong

Hong Kong Baptist University, Hong Kong, China

awong@hkbu.edu.hk

Zhenzhen Zhu

Hong Kong Baptist University, Hong Kong, China

zzzhu26@gmail.com

Abstract

This paper examine whether stock markets in G8 [G7 (Canada, France, Germany, Italy, Japan, the United Kingdom, the United States) and China] are efficient. To conduct the analysis, we employ several approaches. We first apply the mean-variance analysis and the CAPM statistics to examine the performance of the G8 stock markets before and after the Global Financial Crisis (GFC) in 2008. We then apply the runs and multiple variation ratio tests to examine whether the markets improve their randomness after GFC. Last, we apply the stochastic dominance tests to examine the preferences of the markets before and after GFC for different types of investors, check whether there is any arbitrage opportunity in these markets, whether these markets are efficient and investors are rational.

Analytic Redefinition of DOL and Managerial Investment Decision

Yoram Kroll

Ono Academic College (OAC)- Israel, Israel

kroll504@bezeqint.net

David Aharon

Ono Academic College (OAC)- Israel, Israel

dudi.ah@ono.ac.il

Abstract

This paper develops alternative analytical measures for the Degree of operating Leverage (DOL) that reflect the impact of uncertain demand shocks in the product's market on optimal production levels, sales and profits of the firm. The elasticity measures are constructed according to a theoretical formulation of optimal production level that corresponds to demand shocks for given predetermined levels of fixed cost. Our paper suggests two main findings. First, our analytical marginal DOL is at least twice the traditional DOL depending on the structure of the shock, the production function and demand's elasticity. The Traditional DOL is equal to our measure only when large-scale negative demand prompts the firm to abandon production. Second, we also provide an analytical measure of DOL in terms of elasticity of profit to sales rather than to production level. Both theoretically and empirically elasticity of profit to sales can be better measured and better reflects risk. To our best knowledge this is the first attempt in the literature for such formulations. Our model can be used by managers who are well informed about the fixed and variable costs of their firm. Our model determines the mean profit- risk trade off which is an important factor in all investment decision problems. Keywords:

Validation of Certification Hypothesis in Indian IPO Market

Supriya Katti

Indian Institute of Technology Kanpur, India

supriya@iitk.ac.in

B.V. Phani

Indian Institute of Technology Kanpur, India

bvphani@iitk.ac.in

Abstract

The demand uncertainty and risk of unsold shares accentuates agency problem between the issuer and underwriter in the process of IPO. On the contrary to the agency problem, certification hypothesis states that the reputation of underwriter is significant in determining the degree of IPO underpricing. Well reputed underwriters are successful in reducing the degree of IPO underpricing. In this study we argue that institutional approach through regulatory structure is likely to have greater impact than that of the underwriter reputation. Indian regulator has implemented mandatory grading of all IPOs. Therefore, due to IPO grade being disclosed through regulatory filings is likely to suppress certification effect of underwriter reputation. This study validates certification phenomenon associated with underwriter reputation in influencing degree of underpricing in Indian IPO market. The regulatory norms can subdue the certification effect associated with other agents. However, the study reveals that, though regulator has placed the grading system to assess the quality of Indian IPO, the underwriter reputation plays significant role in determining degree of underpricing. There is negative relation between the reputation of the underwriter and degree of IPO underpricing. The study also finds evidence that issue expense is significantly lower for highly reputed underwriter because they normally tend to underwrite large size IPOs and hence in absolute term they gain more fees, therefore issue expense in terms of percentage of issue size is found lower. This study also investigates the influence of lead manager in controlling the liquidity on the listing day. The study contributes to the existing IPO underpricing literature by adding new dimension of institutional approach in explaining the degree of underpricing.

ASSESSING ABNORMAL RETURNS: THE CASE OF CHINESE M&A ACQUIRING FIRMS

Xiaojing Song
University of East Anglia, United Kingdom
Xiaojing.Song@uea.ac.uk

Mark Tippett
University of Sydney, Australia and Victoria University of Wellington, New Zealand, Australia
M.Tippett@lboro.ac.uk

Andrew Vivian
Loughborough University, United Kingdom
A.J.Vivian@lboro.ac.uk

Abstract

Merger and acquisition (M&A) activity in China has increased dramatically over the last 15 years. This is due amongst other reasons to the remarkable growth rate in China's economic output as well as China's admission to the World Trade Organisation (WTO) in 2001. However, research conducted into the area of Chinese M&A activities remains relatively sparse. Moreover, such research as has been conducted on Chinese M&A activities is generally discursive and is not based on rigorous statistical analysis. This paper provides more concrete empirical evidence of the impact that Chinese M&A activities have on the shareholders of acquiring firms by examining the returns of 279 randomly selected Chinese acquiring firms covering the period from 1990 until 2008. We also contrast our empirical results with those obtained in the prior literature for western economies in order that we might identify the underlying reasons for the differences which appear to exist between the wealth effects of Chinese and western M&A activities. Furthermore, this paper analyses the impact of employing different modes of consideration (that is, payment methods) on Chinese acquiring firms both in terms of the average abnormal returns (AARs) and the cumulative average abnormal returns (CAARs) using a 24-day event window surrounding the takeover announcement date. We also identify potential reasons for the differing economic benefits that appear to arise from using cash as against alternative modes of consideration for the shareholders of Chinese acquiring firms. Finally, we test if the pre-takeover stock values of acquiring firms have any relationship with the modes of consideration chosen to finance Chinese M&A activities (Hansen 1987). Our study makes three principal contributions to the M&A literature: i) Chinese acquirers overall have positive abnormal returns surrounding the takeover announcement date. This contrasts with the vast majority of prior western literature which reports negligible and often negative benefits for acquiring firms (Martynova and Renneboog, 2008); ii) Alternative modes of consideration have higher abnormal returns than cash deals. This also contrasts with the prior western literature where cash deals tend to have higher CAARs than non-cash deals (Martynova and Renneboog, 2008) ; iii) Finally, and consistent with the model of Hansen (1987), we find that in Chinese M&A activities alternative modes of consideration only earn higher CAARs than cash deals when the acquiring firm's stock is highly valued.

The Politicization of the Corporate Governance and Spanish Savings Banks Default

Lourdes Torres
University of Zaragoza, Spain
ltorres@unizar.es

Vicente Pina
University of Zaragoza, Spain
vpina@unizar.es

Patricia Bachiller
University of Zaragoza, Spain
bachilerb@unizar.es

Abstract

The politicization of the corporate governance of Spanish savings banks was a key factor to explain the collapse of this sector. This paper focuses on the effect of political influence within the Board of Directors of these organizations and provides empirical evidence about the factors that have influenced their performance and failure. The relationship between the performance of savings banks and political influence, the coverage ratio, efficiency and size has been investigated. The study documents a negative association between the percentage of savings banks' board members with political connections and performance. The findings show that the presence of politicians on the boards of savings banks led them to poor performance and weakened them.

Macro-Finance Determinants of the Long-Run Stock-Bond Correlation: The DCC-MIDAS Specification

Hossein Asgharian
Lund University, Sweden
hossein.asgharian@nek.lu.se

Charlotte Christiansen
Arhus University, Denmark
cchristiansen@econ.au.dk

Ai Jun Hou
Stockholm University, Sweden
ajh@sbs.su.se

Abstract

We investigate the long-run stock-bond correlation using a novel model that combines the dynamic conditional correlation model with the mixed-data sampling approach. The long-run correlation is affected by both macro-finance variables (historical and forecasts) and the lagged realized correlation itself. Macro-finance variables and the lagged realized correlation are simultaneously significant in forecasting the long-run stock-bond correlation. The behavior of the long-run stock-bond correlation is very different when estimated taking the macro-finance variables into account. Supporting the flight-to-quality phenomenon for the total stock-bond correlation, the long-run correlation tends to be small/negative when the economy is weak.

The EMU Crisis : A Proposals to Address It

Antimo Verde
Tuscia University, Italy
averde@luiss.it

Abstract

The European Monetary Union (EMU) survival is at risk. External imbalances, even if in clear improvements, growing unemployment, poverty and inequality are impressive challenges to the EMU policy. In his paper, Antimo Verde suggests a dramatic change in the European policy aiming at addressing these macroeconomic imbalances. His central idea is a “Fund for the macroeconomic synchronisation of national demands”. It is designed to face both the external imbalances within the union and the poor internal demand and high unemployment in the Southern countries. He shows that his proposal is close other famous ones, like the 1977 Jenkins’ one on the suitable dimension of a federal budget and the 1943 Keynes’s Plan on external imbalances. Like the Jenkins’ one, Verde’s proposal is doomed to meet strong opposition by Germany.

A Critical Evaluation of the New Zealand and the German Corporate Bond Market

Larissa Perle

Eastern Institute of Technology, New Zealand

Larissa.Perle@gmx.net

Noel Yahanpath

Eastern Institute of Technology, New Zealand

nyahanpath@eit.ac.nz

Anita Aitken-Taylor

Partner/Financial Advisor, New Zealand

Anita_Aitken-Taylor@camelotgroup.co.nz

Abstract

The development of a liquid, sound and deep bond market has important positive spill-over effects on an economy. A well-developed bond market increases the competitiveness and efficiency of the financial system. Unfortunately, New Zealand has not done well in developing an efficient bond market. The government bond market is relatively thin and the corporate bond market is negligible. As a developed country NZ capital market is lacking in depth and variety of instruments. Therefore it is interesting to study the factors that lead to this situation. In this paper we study the German bond market in order to highlight the issues that throttle development of NZ bond market. In addition we also study bond markets in a few developing countries to draw any parallels. In conclusion we suggest a way forward for the development of the bond market in NZ.

Technical and Scale Efficiencies of Indian Banks using Decision Tree Approach to Factor Selection

Ravi Jain

Icfai Business School (IBS) - Hyderabad Campus, IFHE University, India

ravijain@ibsindia.org

Ramachandran Natarajan Ramachandran Natarajan

College of Business, Tennessee Technological University, United States

RNAT@tntech.edu

Amlan Ghosh

Icfai Business School (IBS) - Hyderabad Campus; IFHE University, India

amlan.ghosh@ibsindia.org

Abstract

The body of research assessing the technical efficiency of Decision Making Units (DMUs) with a special reference to Indian banking sector suggests that a majority of these studies have employed Data Envelopment Analysis (DEA) analysis for measuring technical efficiency with two-input/two-output or three-input/three-outputs or models with several combinations of various input and output factors. In all most all the cases, the choice of input and output factors were based on the judgment of the researchers. They lack the rigorous justification pertaining to the appropriateness of or the efficacy of such input-output factors to measure the true technical efficiency of the DMUs. The objective in this paper is to effectively assess the efficiency of the DMUs by using a scientific method of input-output selection. Towards that end, this study evaluates eleven select DEA models representing the intermediary approach with various input-output factors and investigates the relationship between the computed efficiency scores and a single performance measure of DMUs by using “Decision Tree” analysis. First, the relative efficiency scores of 57 DMUs (representing private, public and foreign scheduled commercial banks) from eleven different variable returns to scale (VRS) DEA models with input orientation are computed. The results of the Decision Tree analysis indicate that two out of the eleven models are the most appropriate to measure relative efficiency when intermediary approach is considered to evaluate the banks. Next, the scale efficiencies are computed for these two models for the 57 banks. The results for VRS technical efficiency are interpreted and the banks which were operating at their most productive scale size are identified.

CEO Compensation and Macroeconomic Fluctuations in Risk Taking Incentives

Hsin-Hui Chiu

California State University Northridge, United States

hsinhui.chiu@csun.edu

Lars Oxelheim

Lund University and Research Institute of Industrial Economics, Sweden

lars.oxelheim@fek.lu.se

Clas Wihlborg

Chapman University, United States

wihlborg@chapman.edu

Jianhua Zhang

University of Gothenburg, Sweden

jianhua.zhang@economics.gu.se

Abstract

Macroeconomic fluctuations as reflected in exchange rates, interest rates and other macroeconomic variables can be considered sources of good or bad “luck” for corporate performance. We analyze sensitivities of CEO compensation in the US to macroeconomic and “intrinsic” factors affecting compensation while allowing for asymmetry of sensitivities. Based on a dataset of 3035 US-firms for the 16 years period up to the financial crisis of 2008 we find significant sensitivities of CEO compensation to macroeconomic fluctuations creating incentives to adjust operations or to conduct risk management. Using three measures of compensation we find that cash compensation and realized compensation from stock options respond asymmetrically to positive and negative macro shocks whereas awarded compensation from stock options does not. We conclude that the asymmetry in realized compensation weakens the risk management incentives created by symmetry in awarded compensation. Finally from our decomposition of the variance of CEO compensation we find that about 30% of the time variation is explained by macroeconomic factors. Based on our finding the policy conclusions for remuneration committees are that firms with little ability to adjust to macroeconomic fluctuations should use a benchmark free from macroeconomic influences while firms that can adjust operations rapidly should allow these influences to impact fully or partially on compensation.

Explanatory Factors of the Capital Structure in Public and Private Firms

Ignacio García de Olalla
BI Norwegian Business School, Norway
ignacio.g.lopez@bi.no

Abstract

I perform a factor selection model to investigate the relative importance of a long series of variables that have been used in the literature in order to explain the leverage of firms. Using a unique database of high quality and extensive accounting data of Norwegian private and listed firms from 2000 to 2011, I show that a set of five factors seem to reliably explain the leverage of three different types of firms, small non-listed firms, non-listed firms that fulfil the equity requirement to be listed in Norway, and listed firms. These five factors are: profitability, asset tangibility, the risk of sales, the median industry leverage, and the log of the assets. In addition, I show that the signs of the core factors tend to agree with the predictions of the trade-off theory for listed firms, but they tend to switch to pecking order patterns for non-listed firms, especially in the case of small firms.

Buybacks Around the World

Alberto Manconi
Tilburg University, Netherlands
alberto.manconi@uvt.nl

Urs Peyer
INSEAD, France
urs.peyer@insead.edu

Theo Vermaelen
INSEAD, France
theo.vermaelen@insead.edu

Abstract

Outside the U.S. short term and long term excess returns around share repurchase announcements are positive. Long term (as well as short term) abnormal returns are positively related to the undervaluation index (Peyer and Vermaelen (2009)). While short term and long term returns are positively related to country governance quality, company-specific measures of governance quality tell a different story : in the U.S. long term returns are significantly negatively related to governance quality, while we find no such relationship elsewhere. This is consistent with the hypothesis that US abnormal returns are at least driven by reductions in agency costs of free cash flow.

The Impact of Economic Agents Perceptions on Stock Price Volatility

Jaroslav Bukovina
Mendel University, Czech Republic
jaroslav.bukovina@gmail.com

Abstract

Author estimates the perceptions of economic subjects tracked by stock market indexes and Facebook activity and its impact on stock prices. Contribution of this paper is twofold. In the first place, this paper studies unique data of Facebook activity and proposes the methodology for employment of social networks as a proxy variable which represents the perceptions of news in society. Next contribution is the contextualization of social networks principals to behavioral economy. Overall, author finds the negative impact of Facebook activity on stock prices and positive impact of stock market indexes. Author points the implications of the findings to protection of company's reputation and to investment strategy based on the existence of undervalued stocks. Author also discusses the potential of social networks for prediction of economic variables based on present perceptions of economic subjects.

The Equity Premium and Its Behavioral Determinants, a “Re-think”

Minh Hai Ngo
Uni-Trier, Germany
ngominhhai@ueh.edu.vn

Marc Oliver Rieger
Uni-Trier, Germany
mrieger@uni-trier.de

Abstract

The equity premium (Mehra and Prescott (1985)) is still a puzzle in the scene of lacking persuasive explanations without assuming a high degree of the (traditional) risk aversion parameter. In this paper, we question the “survival bias” and the “representativeness” of the aggregation approaches in estimating the equity premia using only country-level indicators of stocks and risk-free rate proxies such as Bonds or T-Bills. We prove the existence of the equity premia by estimating returns from firm investments from accounting data (OSIRIS). Furthermore, we investigate wholly its determinants in a global research setting. Our empirical results set light on a revisit of the behavioral concepts, such as “attitudes toward risk”, “attitudes toward losses” and “mental accounting”, and their contributions in explaining the equity premium puzzle. In a general manner, we hypothesize that investors are “risk aversion”, “risk-seeking in the domain of losses” and “impatience”. When investors are prone to these biases, they consequently demand a higher equity premium compensating additional “risks”. Our research using international investigation enables the possibility of including other potential factors to effect the equity premia. Which results a wide angle view in solving the longervity remaining puzzle.

Clustering Real Estate Investment Trusts: Brazil versus United States

Fernanda Sousa Gabriel
Universidade Federal de Uberlândia, Brazil
nandassousa@yahoo.com.br

Karem Cristina de Sousa Ribeiro
Universidade Federal de Uberlândia, Brazil
kribeiro@ufu.br

Pablo Rogers
Universidade Federal de Uberlândia, Brazil
pablo.rogers@hotmail.com

Abstract

This research aims to cluster American and Brazilian Real Estate Investment Trusts – USAREITs and BRREITs, respectively – based on their risk-adjusted measures of performance from January/2003 to August/2013, as well as before, during and after the financial crisis of 2008. Factor and Cluster Analysis pointed out three groups. Afterwards, Kruskal-Wallis and Dwass-Steel-Chritchlow-Fligner pairwise comparisons were adopted to verify the statistical differences between clusters. According to the results, it is possible to state that from January/2003 to August/2013, the cluster that achieved the best performance was formed mainly by BRREITs. In the same period, the cluster with the worst performance was formed mainly by USAREITs. Analyzing the subperiods, the research was able to verify that before (January/2003 to May/2007) and during (June/2007 to March/2009) the financial crisis of 2008, the BRREITs were able to form clusters with the best performance. Surprisingly, in spite of the fact that BRREITs presented a better performance during the financial crisis of 2008, the results of the test were not statistically different from USAREITs. Nevertheless, after (April/2009 to August/2013) the crisis, BRREITs were concentrated in a cluster with the worst risk-adjusted performance. On the other hand, USAREITs presented a more aggressive strategy and the best performance after the crisis, whilst BRREITs presented a more conservative strategy during the same period. As a suggestion for future studies, a more extended period and additional measures of performance should be covered to better support our current findings.

Gold Exchange Traded Funds: Global Scenario (With a special emphasis on Indian Gold Exchange Traded Funds)

Prof. (Mrs) Prashanta Athma
Osmania University, India
prashantaathma@osmania.ac.in

Abstract

Exchange Traded Funds (ETFs) are one of the innovative financial products to emerge from the Financial Industry in the last two decades. ETFs have opened a new panorama of investment opportunities to Retail as well as the Institutional Money Managers. Exchange Traded Fund is a security that tracks an index, a commodity or a basket of assets like an index fund, but trades like a stock on an exchange. At the end of March 2014, the Global ETF industry had 3,690 ETFs, with 8,039 listings, assets of US\$2,297 Bn, from 196 providers on 57 exchanges. At present, there are 41 ETFs in India, which concentrate mainly on the Indices, Gold and Money Market. The first Gold Exchange-Traded Fund was actually launched in March 2003 on the Australian Stock Exchange under Gold Bullion Securities (ticker symbol "GOLD"). Gold ETPs are listed and traded across the world providing investors with a wide variety of gold ETPs. This indicates the importance of the gold ETP to the investors as a way to access the gold price. In this context, the study is undertaken to assess the growth and progress of the Gold Exchange Traded Funds globally, with a special emphasis on the Indian Gold Exchange Traded Funds as a decade has elapsed since the introduction of the Gold ETFs. The period of study is since the inception of the Gold ETFs i.e., 2003 to March 2014. The tools used for the analysis of the data are 3 Day Moving Average; CAGR; and Correlation. F-test is used to test the hypothesis if there is a significant difference in the Average Returns of the various schemes of the Gold ETFs. Gold ETFs have emerged as an asset in the portfolio of the investors for the diversification of risk. Investors are becoming aware of the new product and Gold ETFs are accepted worldwide which is proved by cross listing and increase in the growth of the number of Gold ETFs and AUM of Gold ETFs.

Effect of Interbank Relationships on Execution Costs in Over-the-Counter Debt Markets

George Issa
University of Sydney, Australia
giss5076@uni.sydney.edu.au

Elvis Jarnecic
University of Sydney, Australia

Abstract

We use a sample dataset from the Australian wholesale money market to examine the effect of relationships on execution costs in over-the-counter markets. We document two key findings divided according to interbank market conditions. First, when markets are behaving normally, execution costs are positively related to the relationship strength between the two trading parties. Second, and in contrast to our initial expectations, we document a similar but even stronger positive effect during market stress periods. Overall, these results suggest that relationships allow banks to enter into mutually-beneficial and reliable trading partnerships – thus avoiding search costs – but only at the expense of less attractive prices.

ROLE OF OMBUDSMAN IN BANKING SERVICE A STUDY ON PRESENT GLOBAL SCENARIO

SEKHAR INDRAKANTI
OSMANIA UNIVERSITY HYDERABAD AP., India
sindrakanti@yahoo.co.in

Abstract

Now- a- days financial services are growing day by day, banking activities are also growing. In modern banking system, banks are providing many services to the customer. Sometimes, whatever may be the reason; there is a deficiency of the services of a banker. It may cause a monetary loss, inconvenience or damage to the reputation of the customer. Ombudsman is positioned as a distinct redressal forum to deal with the complaints related to banking. This paper attempts to give conceptual framework of Banking Ombudsman in India and selected countries in global. Analyses were made on the reasons for the fluctuations in the number of complaints received and its disposal.

OVERCONFIDENCE, RISK TOLERANCE AND INVESTMENT STRATEGY ADOPTION OF CAPITAL MARKET INVESTORS

MAKESH K.G

Govt. College, Mokeri, India

kgmgeethanjaly@yahoo.co.in

MINIMOL M.C

Rajagiri centre for business studies, India

minimol@rajagiri.edu

Abstract

Traditional finance theories postulate that capital markets are efficient and that investors are rational. Investors seek to optimize returns and risk. Markowitz, Fama and Samuelson pioneered thinking in traditional finance in the fifties and sixties. Later on, objections were raised on the assumption of rationality of investors. Investors were gradually seen in the light of emotional and cognitive weaknesses that affect them. Traditional finance theories were considered to be too narrow in demanding expected behaviour from investors, rather than actual behaviour. One actual behavioural trait exhibited by investors, which is far from being rational, is overconfidence. Investors may be overconfident in assessing their capabilities in investment management. The present paper investigates into the existence of overconfidence among investors, their risk tolerance levels and its impact on investment strategies adopted by them.

A STUDY ON FACTORS INFLUENCING CAPITAL STRUCTURE OF PHARMACEUTICAL COMPANIES LISTED ON THE KARACHI STOCK EXCHANGE

Hamid Jamal Zubairi
Institute of Business Management, Pakistan
jamal.zubairi@iobm.edu.pk

Shazia Farooq
Institute of Business Management, Pakistan
shazia.farooq@iobm.edu.pk

Abstract

This study focuses on investigating the factors influencing the capital structure of seven companies listed in the pharma and biotech sector of the Karachi Stock Exchange. Leverage has been designated as a representative of capital structure. Seven variables (all financial) are assumed independent and leverage has been taken as the dependent variable forming the basis for our pooled regression model. At an assumed 5% level of significance, three null hypotheses are rejected. Reliability tests namely Cronbach's Alpha measure is run in order to verify that the model is stable over time. The results of this test suggest inconsistency in the case of the entire range of the data but if considered individually the consistency, 5 out of 7 variables have positive alphas. However, the conclusions drawn from the model are tentative.

Time-series and cross-sectional momentum strategies under alternative implementation strategies

Ron Bird

University of Technology Sydney, Australia

ron.bird@uts.edu.au

Xiaojun Gao

Waikato University, New Zealand

xg47@waikato.ac.nz

Abstract

The study compares the performance of alternative implementations of both time-series (Moskowitz, Ooi, & Pedersen, 2012) and cross-sectional (Jegadeesh & Titman, 1993) momentum strategies across six markets. We find that over our sample period both types of momentum strategies outperform in Australia, Germany, Hong Kong and the U.K. In the U.S. and Japan, there is limited evidence of modest outperformance for time-series momentum but absolutely no evidence of outperformance for cross-sectional momentum. Our major finding is that in all six countries the optimal implementation of time-series momentum outperforms that of cross-sectional momentum with the difference being significant in all but the Germany and U.S markets. An important difference between the two momentum strategies is that under time-series momentum, the size of the winner and loser portfolios vary with the state of the market. As a consequence, cross-sectional momentum digs deeper to select winning stocks when markets are weak and deeper to select losing stocks when markets are strong. As the information in the returns signals are concentrated the tails of the return distribution, it then is not that surprising that momentum is best implemented using time-series momentum.

Ownership Structure and Stock Returns

Nicolas Eugster
Université of Fribourg, Switzerland
nicolas.eugster@unifr.ch

Abstract

This paper examines the relationship between the ownership structure and the stock returns for a sample of 185 companies listed on the Swiss Exchange for the period 2003-2010. The distinction is made between family firms, widely held firms and those owned by another blockholder, as well as between the generation of the family firm and the active involvement of the family in the management of the company. The results of the study show that differences in the ownership structure of companies have a non-negligible influence on the stock value and investment strategies based on the latter provide significant abnormal returns.

Predatory short-selling and covering around pre-announced deletions from index composition: Evidence from the Nikkei 225 Index deletions

Hidetomo Takahashi
ICES, Hosei University, Japan
htak@hosei.ac.jp

Peng XU
ICES, Hosei University, Japan
pxu@hosei.ac.jp

Abstract

Focusing on pre-announced index deletions which induce liquidity needs by index funds and using daily short selling data, we show that short sellers employ front-running strategies in which short sellers sell stocks immediately after the announcements of deletions from index composition until the actual deletion days and buy back stocks from the actual deletion days. We find that, while short sellers can exploit profitable opportunities, their trading activities create temporary liquidity shortages and destabilize stock prices.

The Governance of Perpetual Financial Intermediaries

Jos van Bommel
University of Luxembourg, Luxembourg
jos.vanbommel@uni.lu

Jose Penalva
Universidad Carlos III, Spain
jpenalva@emp.uc3m.es

Abstract

In this paper we re-examine the risk sharing potential of inter- generational financial intermediaries taking into account their governance structure. We argue that asset buffers of perpetual institutions are limited by the temptation of the living stakeholders to renegotiate contributions and distributions. We characterize the renegotiation constraint and show that it severely limits intergenerational risk sharing. Without renegotiation frictions, intermediaries cannot provide higher welfare than a market. The existence of (self-imposed) renegotiation costs relaxes the constraint. By forming a single monopolist intermediary, agents can further improve welfare.

Financial Integration and Growth in a Risky World

Nicolas Coeurdacier
SciencesPo, France
ncoeurdacier@gmail.com

Helene Rey
London Business School, United Kingdom

Pablo Winant
Paris School of Economics, France

Abstract

We revisit the debate on the benefits of financial integration by providing a unified framework able to account for gains from capital accumulation and risk sharing. We consider a two-country neoclassical growth model with aggregate uncertainty. We allow for country asymmetries in terms of volatility, capital scarcity and size. In our general equilibrium model, financial integration has an effect on the steady-state itself. Because we use global numerical methods we are able to do meaningful welfare comparisons along the transition paths. We find differences in the effect of financial integration on growth, consumption and welfare over time and across countries. This opens the door to a much richer set of empirical implications than previously considered in the literature.

FOREIGN DIRECT INVESTMENT : THE DOUBLE TAXATION AVOIDANCE AGREEMENT (DTAA) BETWEEN INDIA AND MAURITIUS -From a Mauritian Perspective-

RAJENDRA PARSAD GUNPUTH
UNIVERSITY OF MAURITIUS, Mauritius
rpgunput@uom.ac.mu

Abstract

It has always been disputed whether FDI has a serious impact on emerging sectors of the economy of country? Various emerging sectors may eventually change the face of the economy of a country. The impact of FDI in emerging sectors of the economy of country has eventually been very prolific between India and Mauritius. By referring to facts and figures this model will be used to demonstrate the extent of the impact and its importance. However, the paper is focused on the Double Taxation Avoidance Agreement and how FDI is essential to the development of developing countries which have few natural resources provided they have a strong institutional and legal framework. What shall come out of this paper shall be able to convince both local authorities, institutions and even other countries that FDI is essential for the development of a country and to put shoulders together to encourage and promote bilateral business and financial relations between India and Mauritius which have very strong ties indeed, in a win-win situation.

The Role of Price Connectors A Study on the Market Segmentation in Chinese Stock Markets

Yun Feng

Shanghai Jiao Tong University, Sweden

fengyun@sjtu.edu.cn

Chongfeng Wu

Shanghai Jiao Tong University, Sweden

cfwu@sjtu.edu.cn

Jianhua Zhang

University of Gothenburg, Sweden

jianhua.zhang@economics.gu.se

Abstract

The degree of market segmentation has resulted in price differences for dual class equity at the Chinese stock exchanges. The price differences among different types of shares from the same firm can be directly affected by the changes of investment barriers and ownership restrictions imposed by the regulatory authorities, or indirectly influenced by the changes of the fundamental values of the firm. This paper investigates four possible channels from a firm's fundamentals that could link the prices of Chinese domestic investors' A shares and foreign investors' B shares, or H shares. The proxies for these four channels are cash dividends, stock dividends, stock transfers (transferring capital surplus to the stocks), and net asset values. The first two channels are related to a firm's dividend policy. Our empirical results from 90 Chinese firms with A and B shares, and 79 Chinese firms with A and H shares in the period 1997-2012 show that cash dividend payments significantly reduce the A-share price premium over B shares or H shares. Consistently with the prediction from the signaling hypothesis about the stock dividends and some empirical findings from the Chinese equity markets, we find stock dividends positively affect the A-share price premium over B shares. Thus, stock dividends are more valued by Chinese investors than by the foreign investors. Stock transfers are found only negatively affect the A and H price differences. The negative effects are also found from the net asset values on the A-share price premium over B shares or H shares.

The Cointegration Analysis of the Long-term Bond Rates in Japan under the Zero Lower Bound Problem

Shohei Ishibashi
Osaka Sangyo University, Japan
shohei@saturn.dti.ne.jp

Abstract

In April of 2013, Bank of Japan (BOJ) where new governor of Haruhiko Kuroda has just was inaugurated introduced Qualitative and Quantitative Easing (QQE). BOJ had introduced non-traditional monetary policies such as not only QQE, but Zero Interest Rate Policy (ZIRP) and Quantitative Easing (QE), which had not brought sufficient result. In this thesis we investigate the extent to which change rate of monetary base and amounts of loan outstanding of banks and other proxy variables affects both the nominal and real interest rates of 10 year JGBs. We used a fundamental bond rate model based on Sargent (1969) and test the cointegration relationship among the variables and test estimate based on cointegration approach. Then we estimate the model with cointegrated relationship by Dynamic OLS and Error Correction model by GMM. Finally we get the result that most coefficients of explanatory variables of those models are negative. It would take much time for the process of economic recovery by the non-traditional monetary policies.

THE DECLINE OF PARTNERSHIPS AND RISE OF CLUB GOOD STRUCTURES IN INVESTMENT BANKING

W. Travis Selmier II

Indiana University, Ostrom Workshop in Political Theory and Policy Analysis, United States

wselmier@indiana.edu

Abstract

Although little-appreciated, banking has long consisted of club goods and club good market structures. 19th-century merchant banks were clubs consisting of a small number of partners and apprentices crafting trade finance and helping to finance wars. This paper chronologically follows the transformation of merchant banking into investment banks, then into the SIFIs of today [Systemically Important Financial Institutions], through the prism of two areas of technological change: new ICTs [information and communication technologies], and “internal” technologies of an organizational or product-development nature. Over the course of this two-century transformation, reputational capital plummeted in importance as needs for financial and informational capital skyrocketed. Informational capital, once internally-developed, became externally-acquired as firms bid for talent rather than growing it through mentoring. Organizational flexibility, intense competition, and the time-critical nature of banking encouraged rapid adoption of new technologies. Using emergent technologies, investment banks engineered club good market structures to alleviate or transfer financial risk while enhancing profits through hierarchical ownership within the club. Market and social governance implications are profound, as this risk transfer occurs partly through pushing risk out of the club and into economy and society.

The Managerial Ownership Impact on Bank Performance and Risk: Evidence from Kazakh banks listed in Bloomberg

Gulnara Moldasheva
KIMEP University, Kazakhstan
mgulnara@kimep.kz

Abstract

In the presented research I follow agency theory to assess the impact of managerial ownership on the market value, performance, and risk of 12 listed Kazakh banks included in the Bloomberg list from 2008 to 2013. After controlling for bank characteristics and macroeconomic conditions, the findings show a negative relationship between managerial ownership (MO) and both market value (Tobin's Q) and performance (ROA and ROE). Moreover, there are statistically significant relationship between bank performance and stock market capitalization, scaled to GDP of country, and there is statistically significant negative relationship between Tobin's Q and net interest income to total operating income as a proxy for income diversity. The findings also show higher risk-taking behavior (capital market indicators as risk measure, Z-score and the percentage of non-performing loans in total loans as NPL/L). There is a positive relation between MO and Z - scores, and negative relationship between MO and NPL, but the relationships are not significant in statistical terms for Kazakh banks. Moreover, there are significant relationship between banking risk and development of the financial markets which is proxy by private credit and stock market capitalization, both scaled by GDP of country, and, there is statistically significant negative relationship between debt intensity and risk. In effort to immunize the global financial system from systemic risks, National Bank of RK and practitioners could find proposed results relevant for regulation purposes.

Does Stock Price Informativeness affect Labor Investment Efficiency?

Hamdi Ben-Nasr

King Saud University, Saudi Arabia

hbennasr@ksu.edu.sa

Abdullah A. Alshwer

King Saud University, Saudi Arabia

aalshwer@ksu.edu.sa

Abstract

In this paper, we examine whether managers use information included in stock prices when making labor investment decisions. Specifically, we examine whether stock price informativeness affects labor investment efficiency. We find that a higher probability of informed trading (PIN) is associated with lower deviations of labor investment from the level justified by economic fundamentals i.e., higher labor investment efficiency. This finding is robust to using alternative proxies for stock price informativeness and labor investment efficiency, when we control for earnings quality and mispricing, and when we address endogeneity issues. Furthermore, we examine how the impact of stock price informativeness on labor investment efficiency depends on labor union and financial constraints. Particularly, we find stock price informativeness helps mitigating the adverse effects of labor union and financial constraints on labor investment, respectively. Collectively, our results highlight the importance of information included in stock prices for the investment in human capital.

The Monitoring of Short Selling: Evidence from a Natural Experiment

Xiaohu Deng

University of Memphis, United States

xdeng@memphis.edu

Lei Gao

University of Memphis, United States

lgao@memphis.edu

Abstract

We investigate whether short selling can serve as a supplementary power of monitoring in financial market. By employing the Difference-in-Difference approach and utilizing a regulation change from SEC, which is so-called Reg SHO program, as an exogenous shock, we find that the lifting of short sales constraints reduces stock price crash risk. These findings suggest that short selling provides a supplementary monitoring power to the financial markets. In addition, we find short sellers monitor the market by identifying the effects on the firms with higher magnitude of agency problems and higher degree of information asymmetry. This study sheds new lights on the theory of corporate governance, short selling and their applications, and provides a better understanding of stock market and economy. Moreover, our results provide information that can inform policy making within the regulation entities.

Manipulations of Libor and other reference rates: Assessing the impact on interest rate derivative markets

Ralf Meyer
EBS University, Germany
ralfmeyer17@gmail.com

Abstract

This paper discusses the impact of manipulations of reference rates (e.g. Libor) on the profitability of banks in interest rate derivative markets. In a first step, external data is used to analyse the profitability in interest rate derivatives markets by comparing banks that manipulated interest reference rates with other banks. In a second step, a bilateral interest rate derivatives trading portfolio of two banks (including one bank that manipulated reference rates) is analyzed using statistical methods to quantify the impact of the manipulations on profitability in contrast to other contributing factors. Finally, the trading patterns in the aforementioned bilateral trading portfolio are analyzed in order to observe potential changes during the time of manipulations. I show that Libor-Panel banks that were fined for reference rate manipulations were able to generate a trading advantage of approximately 0.56 basis points in trading interest rate derivatives in comparison to Libor-Panel banks that were not fined for manipulations. This trading advantage led to additional profits of approximately USD 17 billion per year in the years before 2009. In a second step, I present some evidence that the observed trading advantage might be indeed the result of manipulations of reference rates and that the manipulations might have already started well before 2005. Finally, I discuss the idea and provide some evidence that the banks involved in the manipulations adjusted their OTC derivatives trading patterns in order to maximize their profits from the manipulations.

Calculating the default probability of Russian innovative companies: the need to correct the standard techniques

Alexander Borochkin
Lobachevsky State University of Nizhni Novgorod, Russia
borochkin@yandex.ru

Abstract

In this paper binary logistic regression model of default probability of Russian innovative companies is offered. We find evidence that pace of growth and position of the company in the economy measured by its size and age is useful predictor of default probability. We find, also, that financial coefficients used by dominant Russian banks can't produce good forecasts of innovative companies bankruptcies, because firms are highly interested in manipulation of wildly used financial ratios. Recent scientific research on the area in question is concentrated not on creating new financial ratios but mostly on using existing models to improve our understanding of firms financial policy decisions which are affected by credit rating considerations. We concluded that regulators should show more discretion when checking a banks' credit portfolio, avoid exclusively formal, regression models approach and insist on increase in capital provisions for non-performing loans.

Does Cash Contribute to Value? A Comparison of Constrained and Unconstrained Firms in China and Germany

Wei Zhang

University of Groningen, Netherlands

zwbobo@gmail.com

Henk von Eije

University of Groningen, Netherlands

j.h.von.eije@rug.nl

Wim Westerman

University of Groningen, Netherlands

w.westerman@rug.nl

Abstract

A fundamental characteristic of emerging markets is the underdevelopment of legal institutions and financial markets. Therefore, the marginal value of a firm's cash holdings in emerging countries can be lower than 1, due to high agency costs resulting from poor external corporate governance. However, the marginal value of cash may also be high in emerging markets because the information asymmetry between current and new providers of funds is high, which means that it is difficult to access the (low quality) capital markets. We study for the industrialized countries of China and Germany whether corporate cash holdings contribute to shareholder value in both constrained and unconstrained firms. In contradiction to previous literature on emerging markets, we find that the marginal value of cash is not smaller than 1 in China, so that agency costs do not dominate. We, however, find marginal values of cash lower than 1 for unconstrained firms in both countries, so that in these firms agency costs of cash holdings exist. For constrained firms we find marginal values significantly larger than 1 in both countries. This implies difficulties in accessing the financial markets for these firms. These difficulties prove to be larger in China than in Germany for small and service firms, but not for high growth firms.

An Empirical Investigation of Asymmetric Volatility and Trading Volume Relationship in the Indian Stock Market

Pramod Kumar Naik
Indian Institute of Technology Bombay, India
kpramodnaik@gmail.com

Puja Padhi
Indian Institute of Technology Bombay, India
pujapadhi@iitb.ac.in

Abstract

This study investigates the stock return volatility asymmetry and its relationship with equity trading volume in the Indian stock market, using daily data from 2nd January 1997 to 30th May 2013 for S&P CNX Nifty. First, we employ GARCH, EGARCH and GJR-GARCH models to examine the volatility pattern in the stock market. We also decompose the conditional variance into a transitory and permanent component, modeled by asymmetric CGARCH, in order to check the short run and long run movements of volatility. Second, contemporaneous trading volumes are augmented in the volatility model to empirically verify the validity of Mixture of Distribution Hypothesis (MDH). Then we compare the level of volatility persistence from the estimated models i.e. before and after including trading volumes in the variance equation. The findings show significant volatility asymmetry in the Indian equity market, supporting the leverage effect hypothesis. Secondly, we find a positive contemporaneous relationship between volume and volatility, validating the argument of MDH. Moreover, the results show that the volatility shocks are highly persistent even after incorporating trading volume, contradicting the seminal findings of Lamoureux and Lastrapes (1990).

DYNAMIC NOISY RATIONAL EXPECTATIONS EQUILIBRIUM WITH ANTICIPATIVE INFORMATION

JEROME DETEMPLE
BOSTON UNIVERSITY, United States
detemple@bu.edu

MARCEL RINDISBACHER
BOSTON UNIVERSITY, United States
rindisbm@bu.edu

THU TRUONG
BOSTON UNIVERSITY, United States
tthu@bu.edu

Abstract

This paper studies a dynamic continuous time economy with discrete dividend payment dates and anticipative private information about future dividends. The economy is populated by informed and uninformed investors as well as mimicking noise traders. Both competitive and strategic informed behaviors are examined. The existence of a competitive and a strategic noisy rational expectations equilibrium is demonstrated. Both equilibria are derived in closed form and their properties analyzed. Weak-form efficiency is shown to fail. Informed trading is found to reduce price volatility, hence to stabilize the market. Conditions for Pareto efficiency of equilibria with private information are derived. Dynamic patterns are identified and equilibria compared. An extension of the model to multiple dividend cycles is carried out.

Undesirable Outputs and Banking Efficiency in Colombia: A directional distance Functions Approach

Camilo Almanza
Universidad del Norte, Colombia
almanza@uninorte.edu.co

Jose Ramos
Universidad del Norte, Colombia
jramos@uninorte.edu.co

Abstract

This paper present a two stage approach to analyze Colombian bank efficiency over the period 2000-2011. In a first stage we use DEA to obtained measures of bank inefficiency from the directional distance function which allow us to take into consideration an undesirable output that is represented by non-performing loans (NPLs). In a second stage we used a Tobit regression to explore the effects of some environment and bank-specific factors on efficiency. We show that the no inclusion of NPLs lead to higher bank inefficiency indicators, which are significantly different from those obtained including NPLs. The results also suggest that foreign banks do not perform better than its domestics counter parts. Finally, the regression analysis showed that the environmental and banks-specifics factors had the expected effect, though in general not significant, on banks performance.

Does investor sentiments explained the observed seasonality of overreaction?

Rafiq Raji

Wits Business School, South Africa

rafiqraji@gmail.com

Kalu Ojah

Wits Business School, South Africa

kalu.ojah@wits.ac.za

Abstract

The seasonality associated with overreaction is well documented. This study investigates the relationship between investor overreaction and the January effect for South Africa and Nigeria, the two major stock markets in Africa. We hypothesize that investor optimism around the “New Year” explains the positive excess January returns of losers. However, we don’t find evidence of congruity in the behaviour of investor sentiments and return. Not that there was not a pattern worthy of generalization; there were some regularities for both bourses as we find statistically significant differences across portfolios. For monthly investor sentiments, however, we find only the Nigerian Stock Exchange has investor sentiments that are differential; though for very few months. Additionally, we investigate the overreaction effect on the Nigerian Stock Exchange (NSE) as there is yet to be one such study for the bourse. For the JSE Securities Exchange (JSE), what we investigate is the persistence of both anomalies in light of evidence of both the overreaction and January effects on the bourse. The findings confirm the subsisting evidence of overreaction on the JSE but we don’t find a January effect. Instead we find a “positive October effect”. In regard of the NSE, we don’t find both anomalies. What we find are “February” and “June” effects.

Ownership structure, dividend policy and dual-class shares: a study of Russian public companies

Irina Berezinets

Graduate School of Management, SPSU, Russia

berezinets@gsom.pu.ru

Yulia Ilina

Graduate School of Management, SPSU, Russia

jilina@gsom.pu.ru

Lyudmila Alekseeva

ZAO PricewaterhouseCoopers Audit, Russia

lyudmila.alekseeva@ru.pwc.com

Abstract

This paper investigates the relationship between dividend policy and ownership structure in Russian public companies. The study of the link between dividends and ownership concentration is based on a sample of public companies with dual-class share structures. These shares were traded on the Russian Trading System (RTS) in the period of 2003-2009. The authors explore a broad range of factors related to ownership concentration. The results of the study allow for conclusions on the impact of ownership concentration on dividend policy. There is an evidence that this impact differs for dividends on ordinary and preferred shares.

Banks' activities and their risk. Does it exist an optimal model in banking?

Aneta Hryckiewicz

Goethe University of Frankfurt; Kozminski University, Germany

hryckiewicz@finance.uni-frankfurt.de

Abstract

The mortgage crisis has revealed that the general knowledge about the riskiness of banks' activity is very limited. Also, the recent literature provides ambiguous results on the impact of banks' strategies on banking sector risk. By analyzing the most prevalent banking strategies observed before mortgage crisis among 360 banks across the globe, we show that there existed a wide heterogeneity in the financial characteristics between the banks representing specific banking models. We find that banks, which occurred the most profitable before the mortgage crisis also experienced the greatest financial distress. Furthermore, the capital ratio itself did not show the risk of banks heavily engaged in trading. We do find that the most risky banking model is when banks specialize in trading and securitization. However the least risky seems to represent banks with the traditional activities. However our evidence suggests the most "optimal" model from risk-return perspective seems to be a well-diversified model, allowing for limited non-interest activities including trading.

Explanatory Co-movement in Asset Prices with Minimal Dependence Structures

Aparna Gupta
RPI, United States
guptaa@rpi.edu

Pablo de Carvalho
RPI, United States

Abstract

Network representations have been used in many fields to capture essential connectivity between entities in a system. In this paper, we develop a framework to identify minimal interdependencies between asset prices as explained by their systematic and idiosyncratic components. The framework allows flexibility for inclusion of multiple relevant systematic factors, as well as investigate the temporal evolution of the dependency structure. We demonstrate the applications of our framework to specific contexts in order to study the structural changes occurring in the asset price dependencies, and the role systematic factors play in these changes. Using designed network measures, in each context we are able to assign significance to assets and systematic factors for their extent of contribution to network connectivity.

Exchange Rate Based Policy Coordination in the Southern African Development Community towards Monetary Union

Mulatu Zerihun

University of Pretoria, South Africa

zerihunmulatufekadu606@gmail.com

Martinus Breitenbach

University of Pretoria, South Africa

martin.breitenbach@up.ac.za

Francis Kemegue

Framingham State University and University of Pretoria, United States

fkemegue@yahoo.com

Abstract

This paper evaluates the strength of policy coordination in SADC as a prerequisite OCA criterion toward sensible monetary integration. The underlying hypothesis goes with the assertion that countries meeting OCA conditions to a greater degree face more stable exchange rates. The quantitative analysis encompasses 12 SADC member states over the period 1995-2012. Correlation matrixes, dynamic pooled mean group and mean group estimators, and real exchange rate equilibrium and misalignment analysis are carried out to arrive at robust conclusions. This study reveals that the Balassa-Samuelson effect holds true in the region. Furthermore, real exchange rate equilibrium and misalignment analysis reveal that SADC economies are characterised by persistent overvaluation with seemingly unlikely mean reverting trend - at least in the short term. This calls for further policy coordination and policy harmonisation in the region. These findings are consistent with earlier studies in other developing regions. The findings in this paper have important policy implications for financial sustainability and opt for welfare-improving monetary integration in the region.

Institutional Quality, Trust and Stock Market Participation: Learning to Forget

Hossein Asgharian
Lund University, Sweden
hossein.asgharian@nek.lu.se

Lu Liu
Lund University, Sweden
lu.liu@nek.lu.se

Frederik Lundtofte
Lund University, Sweden
frederik.lundtofte@nek.lu.se

Abstract

This paper explores the relation between institutional quality, trust and stock market participation. In our theoretical motivation, agents update their beliefs in a Bayesian manner based on their historical observations on frauds and they choose to invest in the stock market if their subjective probability of fraud is sufficiently low. In accordance with this theoretical motivation, we develop an empirical model, which tests the hypothesis that higher institutional quality is likely to lead to a higher level of trust, together with the hypothesis that when the level of trust is sufficiently high, agents choose to invest in the stock market. We use a large sample of European (SHARE survey) data on households residing in fourteen European countries that have a large variation in institutional quality. We find that institutional quality has a significant effect on trust and that trust (particularly the part that is explained by institutional quality) in turn significantly affects stock market participation. Moreover, our model takes into account the learning process of immigrants, who experience a dramatic change in institutional quality. We find that the probability that an immigrant participates in the stock market increases both with the institutional quality of the country of residence and that of the country of origin. However, on average, the former is more influential than the latter. We also find that immigrants with a higher level of education adapt their level of trust faster to the institutional environment of the country of residence than those with a lower level of education. The impact of the institutional quality of the immigrants' country of residence on stock market participation, relative to that of their country of origin, tends to increase with education.

The 'Backus-Smith' Puzzle, Non-tradable Output, and International Business Cycles

Soojae Moon

University of Colorado Denver, United States

soojae.moon@ucdenver.edu

Abstract

In this paper, I examine the effects of adding non-traded sector and trade in intermediate goods sector, and their impact on the 'Backus-Smith' (BS) puzzle and the features of the non-traded output. Conventional IRBC models show that the real exchange rate and the terms of trade is positively correlated to the relative consumption movement between the home and foreign economies when there is a total factor productivity shock, while the correlation in the data is negative. I develop a two-country, dynamic, stochastic, general equilibrium (DSGE) model with staggered price setting in non-tradable sector and international trade in intermediate goods sector due to product differentiation in a high asset market frictions situation. When the world economy has positive country-specific productivity shock, the benchmark model successfully solves the BS puzzle and is able to match several features of the data. The dynamic responses to productivity shock show that integrating product differentiation is necessary to generate a more volatile and counter-cyclical non-traded output.

The Influence of Market States on Security Returns

Warren Thomson

Griffith University, Australia

warren.thomson@griffithuni.edu.au

Graham Bornholt

Griffith University, Australia

g.bornholt@griffith.edu.au

Abstract

This empirical study considers the impact of market states on future industry returns. We investigate whether an industry's past relative performance in the same market state as the current market state predicts the industry's future performance. This new approach sorts industries into portfolios to test whether market states can be used to construct profitable dynamic industry rotation strategies. We argue that the results provides strong evidence that market states predict future industry returns.

Diversification versus Concentration . . . and the Winner is?

Danny Yeung
University Of Technology Sydney, Australia
danny.yeung-1@uts.edu.au

Paolo Pellizzari
University of Venice, Italy
paolop@unive.it

Ron Bird
Paul Woolley Centre, University of Technology Sydney and School of Management, Waikato University,
Australia
Ron.Bird@uts.edu.au

Sazali Abidin
School of Management, Waikato University, New Zealand
sazali@waikato.ac.nz

Abstract

Abstract: Diversification has its obvious benefits but its pursuit can involve a trade-off between risk-controls and returns. We investigate this trade-off by examining the relative performance of diversified versus concentrated portfolios where both are formed on the basis of the same stock preferences. Using US equity mutual funds as our data base, we establish that the concentrated portfolios achieve the better performance both for long-only and long/short portfolios. This highlights the potential for investors to do their own diversification using concentrated funds rather than have the funds do the diversification. It also highlights that the stocks selection skills of the managers may be lost by their portfolio construction endeavours.

LONG-TERM AND SHORT-TERM WEALTH EFFECTS OF ASIAN BANKS' M&A

Yoko Shirasu
Aoyama Gakuin University, Japan
shirasu@cc.aoyama.ac.jp

Abstract

This paper covers Asian stock exchanges to empirically examine market responses to M&A announcements, and changes in management strategy made by listed banks from long-term and short term aspects. We get difference results between short term analysis and long term analysis. The long term results suggest that banks wealth effects from acquisitions need long terms, at least three years. The promotion or demotion of every strategy is widely difference among legal systems and regulation system and each combination. The courtiers whom adapted English origin legal system and high rating and private monitoring refutation systems tented to solute credit risk problems, tend to become being sound banks. The short term cross-sectional results suggest that a cross-border diversification strategy anticipates value creation and that investors are not interested in industry diversification. Investors evaluate banks with a purpose of future expanding loan business through a mutually complementary acquisition. And we can explain the short term cross-border effect through national characteristics: it is strongly related to national credit ratings. Investors welcome IMF relief programs and expect weak economies to strengthen. The effect is also strongly positively related to the degree of a country's economic freedom and has relationships with cross-sectional coefficient values and Asia's legal and market systems. Furthermore, in case of alliance acquirers, loosen sting circumstance of barriers to foreign-bank entry, loosen bank action restrictions and large private monitoring promote better banking sector outcomes though cross-border transactions.

Rights Offerings, Transferability, Standby Status and Audit Quality

Balasingham Balachandran
La Trobe University, Australia
B.Balachandran@latrobe.edu.au

Robert Faff
University of Queensland, Australia
r.faff@business.uq.edu.au

Huong Giang (Lily) Nguyen
La Trobe University, Australia
Lily.Nguyen@latrobe.edu.au

Premkanth Puwanenthiren
La Trobe University, Australia
ppuwanenthiren@students.latrobe.edu.au

Abstract

Using a broad US sample, we examine the determinants of transferability and standby status in rights offerings, and the market reaction around three critical dates/periods that occur during the rights offering process: announcement date, price release date, and subscription period. We find that audit quality plays a major role in designing the features of rights offerings. We also find that the subscription period price reaction is negatively related to the issue price discount. However, we do not find any support for the impact of shareholder takeover after controlling for issue size and beneficial ownership. We also fail to document any support for the impact of shareholder takeover on the price reaction around the announcement and price release dates. Moreover, beneficial ownership and subscription price discount do not play any role in determining shareholder takeover. These findings suggest that the impact of takeover depends upon institutional features that vary internationally.

Risk premium, price multiples, and ‘reverse yield’ gap

Yoshitaka Fukui

Graduate School of International Management, Aoyama Gakuin University, Japan

fukui@gsim.aoyama.ac.jp

Naoki Kamiyama

Merrill Lynch Japan Securities Co., Ltd., Japan

naoki.kamiyama@baml.com

Abstract

In fundamental analysis, it is often the case that financial/accounting variables, price multiples and risk premium are either knowingly or inadvertently treated as free parameters without any restriction. However, there exist endogenously determined relations among them in market equilibrium. Therefore seemingly plausible estimates may lack internal consistency, though each of them is “reasonable” if considered separately. Using the simple Gordon model with the sustainable growth rate, we clarify what relations must hold among financial/accounting variables and price multiples in equilibrium and what implications they have for the change of risk premium and the “reverse yield” gap.

Corruption Risk in the Defence Industry around the World: Country Level and Firm Level Antecedents

Domenico Pensiero

University of Southern Queensland (USQ), Australia

domenico.pensiero@usq.edu.au

Chandrasekhar Krishnamurti

University of Southern Queensland (USQ), Australia

Chandrasekhar.Krishnamurti@usq.edu.au

Eswaran Velayutham

University of Southern Queensland (USQ), Australia

eswaran.velayutham@usq.edu.au

Abstract

Anecdotal evidence indicates that corruption is rampant in the defence sector globally. Using a unique database on firm level corruption risk in the defence industry, we examine the role of country level and firm level antecedents. Among the country level factors we study are several measures of institutional quality, governance systems and legislative oversight, explicit mechanisms to control corruption and cultural factors such as power distance and uncertainty avoidance. Our empirical results confirm that these factors indeed influence firm level corruption risk. We also find that at the firm level, factors such as visibility, governance and shareholding play a significant role in affecting a firm's corruption risk. The results of our study also show that the disclosure of corruption risk is associated with the mitigation of information asymmetry and consequent increase in firm level market liquidity.

Investment Behavior under Uncertainty in Number of Competitors

Taejin Kim

The Chinese University of Hong Kong, Hong Kong, China

taejinkim@baf.cuhk.edu.hk

Vishal Mangla

Moody's Analytics, United States

vishal.mangla@moodys.com

Abstract

One explanation for why investors crowd into a given strategy, as in the Quant Crisis of 2007, even when they understand its negative implication is that they are often simply not aware of the extent of crowding. In this paper, we build a simple model that formalizes this intuition. To derive excessive crowding, our model relies on two ingredients: (i) an investor's investment decision imposes a negative externality on other investors, and (ii) investors are uncertain about the amount of competing capital at play. The model then allows us to analyze regulations regarding disclosure of capital committed to a strategy. Interestingly, we find that it is suboptimal to disclose the amount of capital perfectly to the investors to mitigate the crowding, and that there is a case for strategic blocking of the information. We show that the implementation of the optimal disclosure policy requires a commitment device without which there occurs a policy trap.

SPACs with focus on China

Yochanan Shachmurove
City College of the City University of New York, United States
yochanan@ssc.upenn.edu

Milos Vulcanovic
City University of Hong Kong, Hong Kong, China
vmilos@cityu.edu.hk

Abstract

In this study, we examine characteristics of Specified Purpose Acquisition Companies (SPACs) used as a financing tool and entrance to the U.S capital markets for companies from China in period 2004-2011. We offer the evidence that, similarly to evidence obtained in studies on reverse mergers focusing on China, SPACs that focus on China are not different in their characteristics from other SPACs. We test for the performance of the SPACs focused on China and show that their performance is not inferior to the performance of other SPACs listed in the U.S capital markets. On the contrary, an investment in the equally weighted portfolio of SPACs with focus on China provides higher absolute return than an investment in the equally weighted portfolio of other SPACs. In addition Chinese focused SPACs are more likely to execute merger combination. This evidence establishes that, on average, SPACs focused on China are as equally a valid investment choice as any other SPAC.

Key Determinants of German Banking Sector Performance

Ali Nasserinia
University Putra Malaysia, Malaysia
naserinia@gmail.com

Mohamed Ariff
Bond University, Australia
ariff13@gmail.com

Fan Fah Cheng
University Putra Malaysia, Malaysia
chengfanfah@upm.edu.my

Abstract

What drives banking performance is a little explored research topic, despite a large literature. This paper reports findings providing new insights on what drives net interest margin, a key performance indicator for the German banking sector. We estimate the link between performance and few carefully-chosen critical bank-specific factors using the most up-to-date econometric methods such as panel regressions using a Generalized Method of Moments with data over 13 recent years. The results show that credit risk, income diversification and size have significant negative effects on net interest margin, as predicted by theory; capital adequacy has positive effect as do liquidity risk. The paper also finds that the effect of concentration and macroeconomic variables on net interest margin are feeble, not statistically significant. In our view, our finding that credit risk, income diversification, size, capital adequacy and liquidity risk are significant factors adds new understanding on German banking performance.

Prestige without Purpose? Reputation, Differentiation, and Pricing in U.S. Equity Underwriting

Chitru S. Fernando
University of Oklahoma, United States
cfernando@ou.edu

Vladimir A. Gatchev
University of Central Florida, United States
vgatchev@bus.ucf.edu

Anthony D. May
Wichita State University, United States
anthony.may@wichita.edu

William L. Megginson
University of Oklahoma, United States
wmegginson@ou.edu

Abstract

We provide evidence of considerable price and service differentiation between high- and low-reputation underwriters that contradicts continuing suggestions of U.S. equity underwriter collusion. High-reputation banks receive average reputational premia equaling 0.65% (0.47%) of average IPO (SEO) underwritten proceeds, which constitutes 10% (13%) of their underwriting spreads. Equity issuers receive significant incremental benefits, including higher offer values, for the reputational premia they pay high-reputation underwriters. We model endogeneity of firm-underwriter choice using a two-sided matching model and our results are robust to controls for underpricing. Our findings also provide the first direct evidence of positive returns to reputation-building in equity underwriting

One Approach to Resolve the Exchange Rate Puzzle

Mohamed Ariff

Bond University/University Putra Malaysia, Malaysia

ariff13@gmail.com

ALIREZA ZAREI

University Putra Malaysia, Malaysia

ali2eza.67@gmail.com

Abstract

We approach a significant research topic by restating the test procedures in a novel manner and applying an appropriate econometric methodology to re-examine three aspects of exchange rate behavior. (i) Does the inflation (price) factor affect nominal exchange rate? (ii) Do relative interest rates affect a country's exchange rate; and (iii) Do the price and interest rate effects hold if controls for non-parity factors are embedded in tests? The data series for this study are taken over a long period. Also, the traditional factors of parity conditions are extended in this research to take into account recently theorized and tested non-parity factors. The results surprisingly affirm, for the first time, that both parity factors (prices and interest rates) and non-parity factors do affect exchange rates significantly. In our view, these findings extend our knowledge of how currency behavior is consistent with parity and non-parity theorems.

Special Risk Rights Model as Alternative to Basel III Countercyclical Buffer Approach

Henry Penikas

National Research University Higher School of Economics, Russia

penikas@hse.ru

W. Travis Selmier II

Department of Political Science, Indiana University, United States

wselmier@indiana.edu

Kseniia Vasileva

National Research University Higher School of Economics, Russia

vasilyeva.ksen@gmail.com

Abstract

In 2010 The Basel Committee on Banking Supervision proposed Basel III capital treatment. One of the goals is to prevent an excessive growth of credit in the banking sector. It allows to take into account the macro-financial environment where banks operate. It could help to avoid or smooth the consequences of crises. On the other side, this treatment binds the whole world economy simultaneously. In this paper we propose an alternative type of buffer which obliges to make additional reserves only the countries which take a risk.

Stock Return Decomposition: Are they consistent with the CAPM?

Ye Bai

University of Nottingham, United Kingdom

ye.bai@nottingham.ac.uk

Christopher Green

Loughborough University, United Kingdom

c.j.green@lboro.ac.uk

Abstract

A substantial amount of literature focus on whether investors should diversify across countries or across industries (or both) to achieve improvements in their risk-return tradeoffs. The basic method for identifying the relative importance of industry and country factors in international stock returns involves the decomposition of returns into industry and country factors using least squares dummy variables. Another strand of literature examines the similar issue by asking whether international and domestic asset pricing models really lead to a different estimate of the cost of capital. The close correspondence found between local and global pricing model to strong country factors in the individual stock returns, consistent with the strong country effects found in the first strand of literature. In this paper we derive and test the parameter restrictions implied by the CAPM, given any particular country-industry decomposition. If the decomposition is consistent with the CAPM it would suggest that country and industry factors are derived from the risk-return characteristics of stocks. If, on the other hand, country and industry effects are not consistent with the CAPM, it would suggest to the contrary that, irrespective of the risk-reward relationship country and industry factors are additional independent factors helping to determine stock returns. The empirical results suggest that generally industry factors are consistent with the CAPM but not the country factors especially from June 1996.

MERGER AND ACQUISITIONS IN THE INDIAN BANKING SECTOR – A STUDY OF ICICI BANK Ltd. and STATE BANK OF INDIA

Dr. RAVI KUMAR JASTI
OSMANIA UNIVERSITY, India
rkjastiou@osmania.ac.in

Abstract

The International Banking scenario has shown major changes in the past few years in terms of the Mergers and Acquisitions. Due to the financial system deregulation, entry of new players and products with advanced technology, globalization of the financial markets, changing customer behaviour, wider services at cheaper rates, shareholder wealth demands etc., have been on rise. Mergers and Acquisition is a useful tool for the growth and expansion in any Industry and the Indian Banking Sector is no exception. It is helpful for the survival of the weak banks by merging into the larger bank. This study shows the impact of Mergers and Acquisitions in the Indian Banking sector and two cases have been taken for the study as sample to examine the as to whether the merger has led to a profitable situation or not. For this purpose, a comparison between pre and post merger performance in terms of Operating Profit Margin, Net Profit Margin, Return on Assets, Return on Equity, Earning per Share, Debt Equity Ratio, Dividend Payout Ratio and Market Share Price has been made in case of ICICI Bank and SBI. In case 1, (ICICI Bank) Net Profit and Return on Assets have showed an improvement after the merger but in case of the other parameters there is no significant improvement in the performance. In case 2, (SBI), there is no significant improvement in the performance after the merger as the merger was mainly in the interest of the public. In the initial stage, after merging, there may not be a significant improvement due to teething problems but later they may improve upon.

Factors of Profitability in Islamic Banking - Difference between MENA and ASEAN countries

Ulaganathan Subramanian
Institut Teknologi Brunei, Brunei
nath.subra@itb.edu.bn

Ahmad Nazri Wahidudin
Institut Teknologi Brunei, Brunei
nazri.wahidudin@itb.edu.bn

Abdull Mutallib Kamaluddin
Institut Teknologi Brunei, Brunei
mutalib.kamaluddin@itb.edu.bn

Mohamad Zawawi Bahari
Institut Teknologi Brunei, Brunei
zawawi.bahari@itb.edu.bn

Abstract

This paper is going to compare the different factors of profitability in Islamic banks of MENA countries and ASEAN countries. Factors of profitability include Bank specific factors and Macro-economic factors. Generalized Method of Moments (GMM) Estimation is used. We found some similarities and many differences between these two regions in factors of profitability of their Islamic banks.

Momentum effect on the Russian stock market. Whether emerging markets are not profitable for Momentum Strategies

Tamara Teplova

National Research University –Higher School of Economics, Russia

tamarateplova@mtu-net.ru

Evgeniya Mikova

National Research University –Higher School of Economics, Russia

evgeniya.shutova@gmail.com

Abstract

Our study examines whether price momentum strategy (cross section momentum effect on long-short portfolios) can be profitable on Russian stock market. We testing the statistical significance of zero cost portfolio excess returns. Our sample covers the period from 2004 to 2013 capturing different states of Russian economy. We implement relative strength strategy with 10% quantile to construct equal-weighted 16 portfolios with different analysis and holding windows. Consistent with Jegadeesh and Titman (1993), monthly portfolio returns are calculated on an overlapping holding period basis. Our testing gets some recommendations for investors. Firstly, investor may get successful results (1.5% excess monthly return) buying 3-month past “winners” and selling 3-month past “losers” and holding such portfolios for 3 months during the whole period from 2004 to 2013. Secondly, momentum strategy generates losses during the periods of crisis (due to past “winners”) and recovery (due to past “losers”). Thirdly, investor can increase the trading results by selling past medium – term “winners” and buying past medium – term “losers” with average monthly excess return about 1.2-1.7%. In the pre-crisis period the performance of momentum strategy is the best in comparison with other states of economy. We show that momentum effect is stronger with liquid stocks of large capitalization companies. The seasonal effect (January effect) is significant to build momentum strategies in Russian stocks. In addition, our paper examines the impact of total transaction costs on momentum strategies. We obtain that losers have substantially higher transaction costs than winners what is typical for emerging markets. Nevertheless, buying past winners (with consideration of transaction costs) allows beating the market during the whole analyzing period.

Do Banks Learn from Financial Crises? – The Nordic Experience in Two Decades' Perspective

Tom Berglund
Hanken School of Economics, Finland
berglund@hanken.fi

Mikko Mäkinen
Aalto University, School of Economics, Finland
mikko.makinen@aalto.fi

Abstract

Fahlenbrach et al. (2012) find that listed US banks that performed worse during the 1998 crisis also did so during the recent financial crisis. Their interpretation is that the poor performers were stuck with a specific risk culture and thus were unable to adjust their performance to perform better in the subsequent crisis. We investigate whether this risk culture hypothesis holds in a European context. We utilize the fact that three rather similar Nordic countries, namely Finland, Norway, and Sweden, underwent severe economic and systemic banking crises in the early 1990s, while other European countries did not. Using a novel panel data set for the period 1994-2010, we compare performance between the Nordic and European banks. If the risk culture hypothesis applies in a broader context, and not only for listed US banks, we would expect only minor performance differences between these two groups of banks. However, we find significant performance differences, both during the period preceding the recent crisis (1994-2007) and during the recent crisis (2008-2010). As such our findings are consistent with the view that the Nordic banks have been able to adjust their business models in response to their traumatic crisis experiences in the early 1990s.

Impact of Bonus Issue Announcement on select IT Scrips in Indian Stock Market

KAPIL ARORA

JK LAKSHMIPAT UNIVERSITY, India

kapilarora@jklu.edu.in

Abstract

An Event study is a statistical method to assess the impact of an event on the value of a firm and is common to various research areas, such as accounting and finance, management, economics, marketing, etc. Event studies had been used to investigate the stock market responses to corporate events. This research paper tests the effect of bonus issue declaration on the returns and the liquidity of the stock in the market, following an event study approach. The event considered was bonus issue declaration specifically relating to selected IT stocks. The results showed that there was no significant effect of bonus issue declaration on the stock prices while there was sufficient evidence of mixed abnormal return associated just prior to and on the announcement day. However, there was a significant improvement observed in trading volume surrounding the announcement and effective day of bonus declaration showing significant change in liquidity.

Valuing unlisted infrastructure debt

Frederic Blanc-Brude
EDHEC Business School, Singapore
frederic.blanc-brude@edhec.edu

Majid Hassan
EDHEC Business School, Singapore
majid.hassan@edhec-risk.com

Omneia Ismail
EDHEC-Risk Institute, Singapore
omneia.ismail@edhec-risk.com

Abstract

In this paper, we develop a performance measurement framework for unlisted infrastructure debt instruments. Project finance covenants create significant and extensive control rights for lenders in infrastructure project financing i.e. embedded options which have a substantial impact on recovery rates. If these options are not taken into account, infrastructure debt valuation is likely to be off by an order of magnitude. By developing a model of endogenous recovery rates, we can derive more relevant and precise performance measures. Our academic contribution is to design a valuation and risk measurement framework for project finance loans and to establish a methodology for its calibration. Indeed, commonly used debt valuation methods are not suitable for PF debt because they ignore the effects of debt covenants and embedded options on cash flows. They also fail to take into account the path dependent nature of PF debt cash flows, which springs from the extensive control rights of lenders. In addition, long-term infrastructure debt instruments imply a degree of market incompleteness, which in turn implies the existence of price bounds instead of unique values. Our methodology only requires a parsimonious dataset of debt service cover ratios (DSCR) and base case debt service cash flows, along with a number of standardised data points about individual instruments that are easily known at financial close. As long as data about project debt cash flows remain limited, we use existing data to calibrate a model of DSCR dynamics built as Bayesian Markov chain. Once the distribution of $DSCR_t$ is documented, the dynamics of the free cash flow of the firm can be reproduced. Using a risk neutralising probability transform, the Black-Cox decomposition and a debt renegotiation model, the value of the firm's debt can always be derived.

Globalization and Corporate Value Creation: The Evidence from Emerging Capital Markets of BRIC

Irina Ivashkovskaya

National Research University - Higher School of Economics, Russia

ivashkovskaya@yandex.ru

Dmitry Shcherbakov

PricewaterhouseCoopers, Russia

Dm.shcherbakov@gmail.com

Dmitry Shvetsov

National Research University - Higher School of Economics, Russia

dishv@mail.ru

Abstract

During the last two decades corporate international diversification became a widely used growth strategy. However, the majority of researches insist on its value-destroying pattern. Those of them which were based on accounting studies' methodology and used current performance measures are likely to make an incomplete evaluation of corporate performance by accounting either for operating performance or financial (cost of capital) effects of internationalization. We contribute to the research literature by developing new approach for modeling the degree of internalization (DOI) versus performance based on economic profit creation. It allows to measure strategic performance by controlling simultaneously operating effects of internationalization, financing effects and risks associated with internationalization (comprised in cost of capital). Our second contribution is the study of the data from the emerging capital markets of BRIC including the Russian market, which up to the moment has not been involved into research on cross border diversification. The model has been tested at the sample of companies from 6 industries for the period of 2005 – 2010. We documented a non-linear relationship between DOI and companies' residual income (economic profit). We show that the relationship is mainly determined by operating performance effects on economic profit while the cost of capital has a lower, but significant effect. The only exception is the residual income of Indian companies, which depends on financial performance.

The Effect of Political Risk on The Process of Generating Stock Returns : A Study Examming Stock Exchanges in Middle East

DOGAN ALTUNER
YASAR UNIVERSITY, Turkey
dogan.altuner@yasar.edu.tr

Abstract

This study examines stock returns behavior in Middle Eastern Countries by using two alternative models of the process generating stock returns : the calender time model and the trading time model.

The Impact of Co-location on Dual-Listed Futures Markets: Evidence from the Singapore Exchange

Esther Yoon Kyeong Lee
University of Sydney, Australia
ylee3654@uni.sydney.edu.au

Angelo Aspris
University of Sydney, Australia
angelo.aspris@sydney.edu.au

Abstract

On 18 April 2011, the Singapore Exchange (SGX) introduced co-location services to its equities and derivatives markets. This paper examines the impact that this microstructure change has on the pervasiveness of HFT activity and on the quality of SGX's stock index futures market. The results suggests that co-location services attract more trading interest from high frequency traders on dual-listed stock index futures markets if there are crossborder profit opportunities i.e. markets with alternative trading venues that have HFT presence. 1 Furthermore, dual-listed futures markets do not compete for HFT orders but market participants on stock index futures bourses engage in cross-border arbitrage trading strategies. Co-location services generate more trading activity, improve the liquidity and ease the volatility of the Nikkei 225 index futures market. The quality of the MSCI Taiwan index futures market, however, deteriorates as evident by the decrease in trading activity, decline in liquidity and increase in price volatility. It suggests that HFTs in the Nikkei 225 index futures market are primarily liquidity-supplying passive traders while in the MSCI Taiwan index futures market they are primarily liquidity-demanding active HFTs. Finally, high frequency trading on Singapore's derivatives market is contingent upon prevailing market conditions. That is, HFTs reduce their trading when price volatility increases.

FUND CHARACTERISTICS AND THEIR IMPACTS ON THE PERFORMANCE OF ASIAN HEDGE FUNDS: AN APPLICATION OF OMEGA RATIO.

Thi Phuong Lan Nguyen
Multimedia University, Malaysia
nguyen.thi.phuong.lan@mmu.edu.my

Abstract

In this paper, we employ cross-sectional analysis to investigate the impacts of 14 fund characteristics of a sample of 79 Asian hedge funds (AHFs) on their omega ratios during the period of 1st January 2001 – 30th September 2013. We employ for the first time the omega ratio as the performance measure for individual AHFs in the sample. Our study focuses mainly on AHFs that survive throughout the entire sample period. Results show evidence of the significant impacts of certain fund characteristics on the AHFs' performance. Our model is found to be well-specified and can be used by fund managers and investors to make their investments decisions with AHFs.

Malaysian Economic Inertia: A Self-Inflicted Limitation to Future Growth

FIREND RASHEED
UNIVERSITI TEKNOLOGI MALAYSIA, Malaysia
DRFIREND@GMAIL.COM

Abstract

This research examines current growth in the Malaysian economy and the levels of debt and borrowing Malaysia incurred in the post-2008 financial crises. An examination of available economic data by Bank Negara Malaysia and other independent economic monitoring agencies in addition to data available to the World Bank and IMF was utilized in the analyses. This research concludes that the excess borrowing and excess money supply caused an artificial growth rates and high public debt, budget deficit, and consumer debt ratio that puts burden on both the banking sector and government's ability to meet its future financial obligations in the wake of shock to the global economy. This paper also suggests that the post-2008 financial crises accommodatiNG monetary policy pursued by Bank Negara should have been reversed early in 2010. This paper further concludes that revamping in economic fundamentals and political reforms is needed in addition to debt reduction in both financial institutions and non-financial enterprises with government guaranteed loans. This phenomenon is described in this research as an economic inertia.

Financial Service Innovation in Hungary

Eva Pinter

University of Pecs Faculty of Business and Economics, Hungary

pintereva@ktk.pte.hu

Abstract

The paper analyses the convergence of financial intermediaries – by determining bancassurance – in terms of service innovation, focused on banking and insurance companies. The concept of bancassurance is not clearly defined neither in theory nor in practice. Bancassurance can also be determined from a functional and an institutional point of view. Functionally means the range of financial services and includes the banking and insurance services. The institutional approach is based on the organisational cooperation between banks and insurance companies or non-bank institutions. For the customers the bancassurance primarily means the connecting of different service providers, which originates from the cross-selling. Based on Hungarian national data, we find that the penetration process, so the entry into insurance services – primary targeted life insurance services - industry is mostly driven by banks in Hungary.

Emergence of Sovereign Wealth Funds

Wessel Vermeulen

University of Oxford, United Kingdom

wessel.vermeulen@economics.ox.ac.uk

Jean-Francois Carpentier

University of Luxembourg, Luxembourg

jean-francois.carpantier@uni.lu

Abstract

This paper tests the theoretical founded hypothesis that the surge of SWF establishments is determined by three main factors: 1) the existence of natural resources profits, 2) the government structure and 3) the ability to invest profitably in the domestic economy. We test this hypothesis on a sample of 21 SWFs that were all established in the period 1998- 2008 by comparing them to the countries that did not setup a fund in the same period. We find evidence for all three factors. The results suggest that SWFs tend to be established in countries that run an autocratic regime and has difficulties finding suitable opportunities for domestic investments. We do not find the net foreign asset position of a country to be similarly related to the explanatory variables, indicating that the establishment of a SWF is distinct from a national accounting result. Since our model, based largely on economic criteria, predicts well the establishment of SWF, concerns over their investment behaviour appear overblown.

ASSETS & LIABILITY SENSITIVITY IN INDIAN BANKS – A STUDY OF SELECT BANKS

VEENA DHARMAPURI
KAKATIYA UNIVERSITY, India
sunil_veena10@yahoo.co.in

BHAVANIPRASAD G.V
KAKATIYA UNIVERSITY, India
bhavaniprasadgy@gmail.com

Abstract

The management of Interest Rate Risk is one of the fundamental stones and very important component in assessing the sensitivity of Assets and Liability of the banks and financial institutions. The asset and liability sensitivity analysis can be done by quantitative assessment of the effect of the changes in the interest rate on a NII and there is a functional dependency between changes in the market interest rates and NII of the commercial banks. In this paper Asset and Liability sensitivity is studied by analysing interest rate margins and calculating some relevant ratios, Trend analysis done for selected banks assets and liabilities, Asset and Liability mismatches were calculated by traditional GAP analysis and finally Interest rate shock analysis to analyse positive, negative interest rate shocks effect on banks net margins. The impact of Asset – Liability match, Interest Rate Sensitivity for the Assets and Liabilities and the consequent impact on NII, NIM are analysed. For the study State Bank of India and Andhra Bank were selected.

Gold Exchange Traded Funds and Price Discovery - An econometric analysis

Narend S

Indian Institute of Technology, Madras, India

narend_s@yahoo.com

Thenmozhi M

Indian Institute of Technology, Madras, India

mtm.iitm@gmail.com

Abstract

Unlike US market, the consumption of gold in Indian market is very voluminous and in this study we investigate the role of gold Exchange Traded Funds (ETFs) in price discovery process. We examine the performance and pricing behaviour of US listed and Indian gold ETFs. We find that Pricing Deviation is significant for gold ETFs listed in US and India but Tracking Error is minimal and not significant for both the US listed and Indian gold ETFs. The analysis shows that there is ample evidence to suggest that unidirectional causality exists between US listed gold ETFs and spot prices of gold and it is the ETFs that are playing the price discovery role in US market. The analysis also shows that bidirectional causality exists between Indian gold ETFs and MCX spot prices of gold. The analysis shows that there is cointegration between spot prices of gold and gold ETFs. Vector Error Correction Model was applied and it was found that US listed gold ETFs play a significant role in the price discovery process. Impulse Response Function analysis shows that the spot prices of gold respond to the shock given in gold ETFs. Further analysis of the variance decomposition shows US listed gold ETFs contribute significantly to the information share while Indian gold ETFs do not contribute significantly to the information share. In India, most of the variance is explained by the spot prices of gold, particularly so because of the high volume of trade that takes place in spot gold market.

What Do Your Employees Know About Risk Management? A Revealing Field Trip Beyond Financial Risks.

Michael Schwandt
University of Miskolc, Hungary
michael-schwandt@web.de

Abstract

The author is a Ph.D. Student and researches the field of risk management in project business. With this article, he wants to give an insight into the range of possible risks in project execution. This is not just about the management of financial risks, but many other types of risks, too. With a large number of participants the author conducted a survey, using a standardized questionnaire. The results of this survey are presented here. Topics are the importance of risk management in general and risk awareness among employees. In addition, the article deals with the triggers for risky projects in the construction industry and the state of enterprises' internal regulation of these issues. Exciting insights were found that can be of great interest even for managers of financial risks.

Single versus Multiple Banking Relationship in Chinese Lending Market-Indicators of Firm's Size, Quality or Market Competition?

WEI YIN

Cardiff Business School, Cardiff University, United Kingdom

yinwcardiff@gmail.com

Kent Matthews

Cardiff Business School, Cardiff University, United Kingdom

matthewsk@cardiff.ac.uk

Abstract

Using Chinese firm level data for 2003-2012, this paper determines the factors that drive firms to switch from single bank loan providers to multiple bank loan providers. The results show that large firms are more likely to switch from single to multiple lending relationships. This study finds that medium size and small firms with of high quality are more likely to have a single borrower relationship while large and high quality firms are more likely to have multiple bank relationships. Increasing market competition decreases the probability of single bank-firm relationship.

Earning Management and Its Influence on Dividend Policy of Small and Medium Enterprises in Thailand: Empirical Evidence from Listed Companies in Market for Alternative Investment (MAI)

SUPACHET CHANSARN

School of Economics, Bangkok University, Thailand

supachet.c@bu.ac.th

THANYAKORN CHANSARN

School of Accounting, Bangkok University, Thailand

thanyakorn.s@bu.ac.th

Abstract

This study aims to examine earning management of 51 listed companies in Market for Alternative Investment (MAI) of Thailand during 2002 – 2012. Earning management in this study is measured by discretionary accrual based on Kasznik Model (Kasznik, 1999). Additionally, this study also investigates the influence of earning management on dividend policy of these companies which are measured by two indicators, including dividend payout ratio and dividend yield, by employing fixed and random effects regression analyses. The findings reveal that listed companies in MAI had high earning management due to high median of discretionary accrual in absolute term of 9.29 percent of total asset. Nevertheless, earning management of these companies exhibited a downward trend during the study period. Moreover, earning management is found to have the negative influence on dividend payout ratio of listed companies in MAI. That is, one percent increase in discretionary accrual in absolute term as percentage of total asset will lead to 0.842 percent decrease in dividend payout ratio. In contrast, earning management is found to have no influence on dividend yield.

Beta Estimation in Indian Stock Markets - Some Issues

Mihir Dash

Alliance University, India

mihirda@rediffmail.com

Abstract

This study examines the reliability of the OLS beta estimates in Indian stock markets by considering the residual characteristics of the market model regressions. The statistics used include the coefficient of determination (R^2), the F-test for significance of the regression coefficient, the Durbin-Watson test for serial autocorrelation, the residual autocorrelation function, the Kolmogorov-Smirnov and Shapiro-Wilk tests for normality of the residuals, the presence of outliers, and White's test for heteroskedasticity. The results of the study indicate some serious issues afflicting beta estimation in Indian stock markets, including: non-normality of stock returns and of residuals, extreme standardized residual values, heteroskedasticity, residual autocorrelation, and low R^2 . Thus, the simple market model is likely to result in biased estimates for beta in Indian stock markets.

The Euro Crisis - A Look at What Went Wrong

Poorna Pal

Glendale Community College, United States

ppal@glendale.edu

Sarkis Khoury Khoury

University of California Riverside (Retired), United States

sarkis.khoury@gme-surgical.com

Clas Wihlborg

Chapman University, United States

wihlborg@chapman.edu

Abstract

We examine the literature on the promise and the travails of the Euro, and the voluminous data on current account balances, government debts and GDP for the Euro-11 countries (Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Portugal and Spain that were amongst the first to join the monetary union) to understand why, despite its ability to subdue inflation in southern Europe (Greece, Italy, Portugal and Spain) and introduce a modicum of financial stability and reasonable economic convergence of disparate economies, the Euro now stands on the brink of collapse. We find that the ECB's same straight-jacket, one-size-fits-all mechanism of fixing the target rates that contributed to Eurozone's economic stability and growth has also inadvertently contributed to the current crisis. This is because the monetary union was hurt significantly by the failure of the financial markets to allocate resources efficiently by associating the market rate with the specific risk of the borrowing country. The fact that ECB target rate closely followed the Taylor rule for the core Eurozone economies, mainly Germany and Netherlands, plausibly contributed to this failure by making the Greek bonds seem just as risk-free as the German bunds. The result was a cash outflow from the current account surplus Germany and Netherlands to the current account deficit southern Europe, and once the ECB changed its target rate to the midway position between Taylor rules for the core and the periphery, government debt in the peripheral region became no longer sustainable. The other factors that may have contributed to this crisis are also examined.

Whence the Privatized Firm Pay-out Premium?

Abhinav Goyal
University of Liverpool, United Kingdom
agoyal@liv.ac.uk

Shrikant Jategaonkar
Southern Illinois University, United States
sjatega@siue.edu

William L. Megginson
University of Oklahoma, United States
wmegginson@ou.edu

Cal Muckley
University College Dublin, Ireland
cal.muckley@ucd.ie

Abstract

We find that the major determinants of the payout premium of firms after privatization are improved firm operating performance and a prevalence of agency costs which are mitigated by higher pay-outs. We examine up to 82,612 firm-years (up to 409 privatized and 6,193 non-privatized firms) across 26 countries. The privatized firm payout premium increases substantively in civil law countries and is inversely related to the proportion of closely held shares. It also increases with firm earnings, efficiency and growth opportunities. Our main findings do not materially differ in respect to the international variation over time in the dividend tax penalty or across the state of economic development in the country of firm privatization, and they are not evident in industry sectors with high levels of regulation. We therefore provide an economic rationale for the higher pay-outs of privatized firms.

Investor Relations' Value Relevance? The Case of Chinese and American Listed Companies

Kang Liu

Center of Development Studies, University of Cambridge, United Kingdom

k1387@cam.ac.uk

Xin Tao

Center of Development Studies, University of Cambridge, United Kingdom

xt213@cam.ac.uk

Abstract

This paper tests the market relevance of investor relations activity directly employing a large database of US and Chinese firms nominated for IR Magazine “best overall IR” awards measuring investor relations quality. We find that effective IR activity leads to improved market valuations for US companies, that high IR ratings will not necessarily lead to enlarged analyst coverage, and that IR activity does not significantly affect stock liquidity. In addition, the valuation gains due effective IR practices are similar for small and large US firms. For Chinese firms, we find IR activity has no significant impact on coverage, liquidity, or valuation. In general, our results suggest good IR practice is associated with higher market valuation, not through enhanced stock liquidity or greater analyst coverage.

OTC Derivatives: Impacts of Regulatory Changes in the Non-Financial Sector

Gustavo Araujo
Central Bank of Brazil, Brazil
00araujogs@gmail.com

Sergio Leao
Central Bank of Brazil, Brazil
sergio.leao@bcb.gov.br

Abstract

In the aftermath of the 2007-2008 global financial crisis, a series of measures has been proposed to regulate the OTC derivatives market. The motivation is to increase the disclosure of the OTC operations aiming to decrease the probability of crisis. The main objective of this paper is to investigate how regulatory changes in the OTC derivatives market affect the non-financial sector. The Brazilian FX derivatives market provides a natural experiment for the issue: in 2011 the Brazilian government taxed short positions in FX derivatives to reduce the carry trade that was causing the local currency to appreciate. This tax may undermine the FX hedges of non-financial firms due to the pass through of banks. Therefore, this paper investigates whether and how much of the increase in the cost of OTC derivatives is transferred to the non-financial sector. The results show that the cost more than doubled for companies exposed to devaluation of the local currency (for instance, importers). As the BRL-USD NDF quotation is high due to the interest rate differentials, this cost increase is worrisome to the extent that it may prevent firms from hedging their FX positions.

Board Structure and Firm Performance: Evidence from Russian Public Companies

Yulia Ilina

Graduate School of Management, SPSU, Russia

jilina@gsom.pu.ru

Irina Berezinets

Graduate School of Management, SPSU, Russia

berezinets@gsom.pu.ru

Anna Cherkasskaya

L'Oreal (Russia), Russia

anna.cherkasskaya@loreal.com

Abstract

Board of Directors as an internal mechanism of corporate governance is the subject of various studies substantial part of which provides evidence regarding the link between board characteristics and company's financial performance. This study is aimed to investigate the link between board structure and performance of Russian publicly owned companies measured by Tobin's Q. Our sample includes 207 Russian traded companies that were listed on RTS (Russian Trading System) during the four year period (2007 – 2011). The results show positive relationship between Tobin's Q and board size as well as gender characteristic of the board. The relationship between Tobin's Q and the percentage of independent directors was not identified. In addition it was found that the presence of such board committees as audit committee, nomination and remuneration committee and strategy committee does not necessarily mean any difference in financial performance of these companies from those that lack mentioned committees.

How are Banks Valued? An Examination of Research Reports in Europe

Jose Velasco

International School of Management, France

K. Matthew Wong

St. John's University, NY, United States

wongk@stjohns.edu

Abstract

In light of the special characteristics such as high leverage and various capital constraints in the banking business, valuing a bank may require the use of tailored valuation methods. This paper compares the common valuation methods in the academic literature against the “real world” methodologies. We reviewed 171 research reports on the valuation of some of the largest European banks in 2011. The findings indicate that there is certain disconnect between the finance literature and the real world. Equity analysts, in general, use valuation models that are more closely adapted for valuing banks and not always follow what the literature advocates. Consequently, there is room for further research to re-evaluate the current banking valuation methodologies in the literature.

Financial reform and the efficiency of China's banking sector

Cheng Hsiao

University of Southern California, United States

chowderlad@gmail.com

Yan Shen

Peking University, China

shenyan01@gmail.com

Wenlong Bian

Peking University, China

bianwenlong0011@gmail.com

Abstract

We use the performance of foreign owned banks in China as a benchmark to evaluate the competitiveness of China's domestic banks since joining the World Trade Organization (WTO) in 2001. The BankScope dataset containing 107 domestic banks and foreign banks for the period 2007 - 2012 is used. We find that although foreign banks are the most cost efficient, their advantages in technology and governing structure are gradually caught up by domestic banks due to competitive pressure. On the other hand, the profit advantages of domestic banks over foreign banks are widening because of institutional arrangement, cultural and social networking as well as the economy of scope.

Signaling and Bank Lending

Kin Sio FONG

Faculty of Business Administration, University of Macau, Macau

yb17007@umac.mo

Rose Neng LAI

Faculty of Business Administration, University of Macau, Macau

roselai@umac.mo

Abstract

Some studies suggest that the interbank markets were frozen in the financial crisis in 2007--2008 because banks were holding too much cash. However other papers question the existence of such behaviors in reality. This paper suggests signaling effects as an explanation to the absence of cash hoarding. Our model indicates that banks may overinvest depending on the "health" of the market. Whether banks are certain about their risks also plays a role in the signaling effect.

Real Effective Exchange Rate and the Transitional Economy of Republic of Macedonia

Irena Vodenska
Boston University, United States
vodenska@bu.edu

Nikola Runchev
Ministry of Finance, Macedonia
nikolcerunchev@yahoo.com

Abstract

Exchange rates have significant impact on small open economies when determining the changes in the balance of payments, price dynamics, gross domestic product estimation, trends of domestic savings, investments, money supply and demand and other economic indicators. Exchange rates are especially important if the other factors remain unchanged, i.e. if the money supply or its fluctuation does not sterilize the effects of changes in the exchange rates. Here, we analyze the relationship of the exchange rates and the above-mentioned factors, which are undoubtedly relevant for the Macedonian economy. Defining and measuring sustainable equilibrium real exchange rate is especially important for those regimes of exchange rates found between the extremes of currency boards and pure fluctuation - i.e. in the countries that have a practice to manage the nominal exchange rate such as Macedonia. We focus on the fluctuations of the real exchange rate, regardless of the nominal exchange rate regime, which can be distanced from its equilibrium level because of price changes. We find that in the case of Macedonia, the real exchange rate fluctuated around its equilibrium level and eventually converges to equilibrium in the long-run. The analysis of the real exchange rate also shows economically significant relation with fundamental factors such as degree of openness of the economy, net foreign assets, money supply, real interest rates, and inflation. According to our empirical analysis, we conclude that in order to achieve higher economic growth rates, Macedonia needs structural reforms, such as encouraging the production of products with higher added value, investments in worker productivity, creating more effective institutions, keeping a disciplined fiscal policy, and continuous improvement the business environment.

Measuring Long-Term Performance: The Case of the Korean Chaebol

Yong Yoon

Chulalongkorn University, Thailand

yong.y@chula.ac.th

Keun Kwan Ryu

Seoul National University, South Korea

ryu@snu.ac.kr

Abstract

Measuring long-term economic performance can be tricky especially when plagued with entry and exit (survivorship bias) and size effects. In this paper, we provide a new and simple method to measure long-term value, which we call the “Value Path Analysis” (VPA) approach. By explicitly taking into account size effects and potential survivorship bias, the VPA is not only a suitable measure of absolute value over time, but is also a suitable means to compare economic performance of two or more entities. In fact, we specifically trace the value paths on a daily basis for chaebols (Korea’s large corporations) and non-chaebol stocks from 1980 to 2007 to better understand their significance to the Korean economy over the past 3 decades.

Dynamic Stochastic General Equilibrium in Monte Carlo Simulations

Ricardo Luis Chaves Feijó

University of São Paulo - College of Economics, Business and Accounting, Brazil

riccfeij@usp.br

Abstract

The paper investigates the stochastic equilibrium by means of numerical simulation exercises. To do so, it employs an algorithm adapted to spreadsheets (Excel). This algorithm borrows some ideas from the conventional algorithm of Kubler and Schmedders (2001). The main difference is that we do not estimate an explicit policy function. The modeling that supports the simulation assumes a Markov process, as a way to simplify the problem and also the process of coordination underlying it. The idea of Markovian dynamic economies is one of the simplest ways to model the chained effects of sequential changes in exogenous variables, the transitions between one state and another. The treatment of general equilibrium in financial markets with Markov processes is a way of dealing with dynamic economies that evolve by stochastic processes and not simply deterministic one as in sequential economies. This is a recursive dynamic model that incorporates the propagation of changes in the state variables from one period to another. Markovian type economies appear in the study of Kubler and Schmedders (2001) and served as motivation for our research. We aimed to develop and implement an algorithm which allows a numerical approximation to the exact equilibrium determined by the theory. To do so, following the procedures of Schmedler and Kubler (2001 and 2005) and Judd et al. (2000), we made a program in Excel for simulations with ten agents and fifty securities.

The Role of Banks in Venture Financing

KAZUO YAMADA

Ritsumeikan University, Japan

mukashin@gmail.com

Keiichiro Koda

Hiroshima University of Economics, Japan

Abstract

Our paper investigates the role of banks in venture investment. Although the role of banks' subsidiary venture capitals is well understood, less is known about the role of the bank itself in equity investment for start-ups. We use a Japanese dataset, where the share of the bank's direct investment is the same as the bank venture capital investment, and report the following results. First, bank direct investment fluctuates more than the bank venture capital investment, in other words, is more influenced by the economic conditions. Further, we find that banks prefer to invest in firms that are more profitable. This indicates that banks avoid taking risk in venture investment. Second, we find that the subsequent operating performance of bank-related IPOs is higher, particularly in the case of IPOs invested in by the bank itself in the first round. This indicates that bank investment reduces the conflict of agency cost by playing a role both as creditor and as shareholders.

Modelling Returns and Volatilities During Financial Crises: a Time Varying Coefficient Approach

Menelaos Karanasos
Brunel University, United Kingdom
menelaos.karanasos@brunel.ac.uk

Alexandros Paraskevopoulos
University of Patras, Greece
paraskevopoulosalexandros@gmail.com

Faek Menla Ali
Brunel University, United Kingdom
Faek.MenlaAli@brunel.ac.uk

Abstract

We examine how the most prevalent stochastic properties of key financial time series have been affected during the recent financial crises. In particular we focus on changes associated with the remarkable economic events of the last two decades in the mean and volatility dynamics, including the underlying volatility persistence and volatility spillovers structure. Using daily data from several key stock market indices we find that stock market returns exhibit time varying persistence in their corresponding conditional variances. Furthermore, the results of our bivariate GARCH models show the existence of time varying correlations as well as time varying shock and volatility spillovers between the returns of FTSE and DAX, and those of NIKKEI and Hang Seng, which became more prominent during the recent financial crisis. Our theoretical considerations on the time varying model which provides the platform upon which we integrate our multifaceted empirical approaches are also of independent interest. In particular, we provide the general solution for low order time varying specifications, which is a long standing research topic. This enables us to characterize these models by deriving, first, their multistep ahead predictors, second, the first two time varying unconditional moments, and third, their covariance structure.

Impact of Higher Capital Requirements on Cost of Capital: Evidence from European Banks

Armen Arakelyan

CUNEF, Spain

arm.arakelyan@gmail.com

Artashes Karapetyan

Central Bank of Norway, Norway

ashotich@gmail.com

Abstract

Under the assumption of efficient and perfect capital markets, higher equity ratio leads to lower equity risk and hence lower required return on equity, leaving weighted average cost of capital. We investigate the implications of higher bank capital requirements using data from listed European banks. We find that while less leverage reduces equity risk, there is still a role for the low risk anomaly: lower risk bank equity does not exhibit lower returns than higher risk bank equity.

Optimal Fiscal and Monetary Policy with Heterogeneous Agents and Nonlinear Income Taxation

Xi Wu

Texas A&M University, United States

xwu@econmail.tamu.edu

Yulei Peng

University of Arkansas, Argentina

pengyulei@gmail.com

Dennis Jansen

Texas A&M University, United States

yp001@uark.edu

Abstract

Previous papers consider optimal fiscal policy in an economy without involving money, or discuss optimal monetary policy with homogeneous agents in reduced-form approaches, putting money in the utility function, or imposing cash in advance. This paper studies optimal fiscal and monetary policy with heterogeneous agents in an environment where explicit frictions give rise to valued money, making money essential in the sense that it expands the set of feasible trades. In the spirit of Mirrlees's private information framework and based on the search-theoretical environment, the paper first solves the households' problem in the centralized and decentralized market, and derives the optimality conditions. The paper then describes the problem the social planner faces by involving uncertainty and agents whose types are continuous. By comparing the optimal conditions in this general setting, we show that the Friedman rule is no longer optimal when combined with nonlinear taxation of income. In addition, the optimal capital income tax rate is not zero.

The Impact of Closing Islamic Windows within the Conventional Banks on Qatar Banking System Performance

Mohamad Maher Eladawi

Qatar University, Qatar

me091559@qu.edu.qa

Dr. Mohammed Elgammal

Qatar University, Qatar

m.elgammal@qu.edu.qa

Abdul Ahad Abdul Basith

Qatar University, Qatar

aa1107108@qu.edu.qa

Abstract

Towards a robust banking environment, Qatari authorities declared in February 2010 that all Islamic windows performing under conventional banks should be closed (Reuters, 2012), Qatar Central Bank (QCB) rationalizes this decree in three folds. First, this decree creates a fair competitive platform for the Islamic Banks, which will assure financial stability by giving fair opportunity for both the conventional and Islamic banks to compete and prosper. Second, QCB plans to specify different limit for capital adequacy based on Islamic Financial Services Board (IFSB), such limit is different from conventional banks. Finally, the decision serves QCB's vision of the ideal monetary policy. The closing of Islamic window leads to easier management, uncomplicated supervision, and efficient applying for both the required reserves and QCB rate (Latham & Watkins, 2011). This project aims to study the impact of enforcing this decree on banks performance. Furthermore the project objective expands to analyze what changes happened to the Qatari banking system (both Islamic and conventional) after the decree, and whether the anticipated goals by QCB are compliant with the reality. This study examines the performance of the banks based on comprehensive performance evaluations such as the microeconomic, macroeconomic and financial indicators of the bank to provide meaningful and precise information from the available data

Post Mergers and Acquisitions Performance: Review of Research Studies

N.M. Leepsa
NIT Rourkela, India
n.m.leepsa@gmail.com

C.S. Mishra
IIT Kharagpur, India
csmishra@vgsom.iitkgp.ernet.in

Abstract

Based on sixty four papers published between 1974 and 2011, this paper aims to portray literature review on firm financial performance during post mergers and acquisitions period. Review of M&A articles is based on various aspects of M&A performance like financial, human resources, corporate governance/ ownership, cross border/ culture, merger wave, business cycle, type of deal, type of industry. The paper classifies the existing literature into various sections, identifies the gaps, and suggests the scope for future research. This is a pure review article and throws light on information in relation to wide range of post mergers and acquisitions company performance and shows the aspects of M&A performance that are possibly not touched in researchers.

The Organization of Bank Affiliates; A Theoretical Perspective on Risk and Efficiency

Elisa Luciano

Collegio Carlo Alberto and University of Torino, Italy

elisa.luciano@unito.it

Clas Wihlborg

Chapman University, United States

wihlborg@chapman.edu

Abstract

We analyze theoretically banks' choices of organization and leverage in branches and subsidiaries in the presence of economic and financial synergies, government bailouts and default costs. We compare with stand-alone banks. The social efficiency of a bank's choice is analyzed as well, taking into account financial returns to scale and distortions caused by a bank's exploitation of limited liability if there is a probability of government bailout. Leverage depends on the trade-off between benefits of limited liability and bankruptcy costs. The choice of subsidiary vs branch depends on a trade-off between organizational and financial synergies. We explore policy implications under different assumptions about capital requirements and institutional factors.

Understanding Commodity price behaviour in Agriculture: A model with volatility

Yogesh Bhatt

Institute of Economic Growth Delhi, India

bhatt.yogesh0@gmail.com

Rajeshwor Mayanglambam

Institute of Economic Growth Delhi, India

rajeshworm@gmail.com

Neeraj Tiwari

Kumaun University, Almora, India

nila@iegindia.org

Nilabja Ghosh

Institute of Economic Growth Delhi, India

nilabjag@yahoo.com

Abstract

We attempt to apply the Generalized Autoregressive Conditional Heteroskedasticity (GARCH) method to model the prices of food crops in major producing states in India. These methods are specifically designed to model and forecast variables and their conditional variances or volatility. We correct the equations for other possible extraneous economic, natural and policy effects and decide the specifications with respect to relevant diagnostics. The forecasts of prices provide an outlook for possible inflation at country level as also for investors world-wide and in India as these prices have profound impacts on prices of financial instruments in the commodity market and other competing markets.

SME LENDING DECISIONS – THE CASE OF UK AND GERMAN BANKS: AN INTERNATIONAL COMPARISON.

Anthony Stevenson
JCU Singapore, Singapore
ars0355@gmail.com

Abstract

Even though it is generally recognised that new firms encounter difficulty in obtaining loans from banks, little research is devoted to the factors which influence bank lending. More precisely, this paper attempts to fill a gap in the research of bank lending practices and behaviour of bank loan officers. A qualitative approach was employed as a research design because the study related to lending practice and risk within the context of a social setting. There is no doubt that after the biggest banking crisis in history, academic researchers and regulatory institutions will inevitably ask questions about how banks behaved during this period. The upshot of recent academic research is compelling and suggests that the regulatory institutions and politicians knew little about the activities of banks – particularly in the UK. The findings in this research also reveal that whilst German banks steer towards the Anglo Saxon banking model (shareholder approach); they struggle to shake off their embedded culture and values, oriented towards the goodness of communities (stakeholder approach). The findings also show that UK retail banks continue to lend by distance and SMEs continue to believe that banks in Britain orientate their strategies towards large multinational firms.

Neural network versus Logistic regression: the best accuracy in predicting credit rationing decision

wafa sayeh

university of Cergy Pontoise, France

wafasayeh@hotmail.com

annie bellier

university of Cergy Pontoise, France

anniebellier@u-cergy.fr

Abstract

In this paper, we establish a general framework for explaining the functioning of Artificial Neural Networks (ANNs) in binominal classification. We apply this approach with one of the conventional techniques namely logistic regression (LR) to predict credit rationing (CR) decision. We use leave-one-out cross validation to ensure the robustness of the two classifiers. Based on a survey data of 246 French Small and Medium Enterprises (SMEs), we highlight the imbalanced learning issue as the class distributions of rationed and non-rationed firms are skewed. Using a combination of oversampling and under sampling method called ROS/RUS approach; we balanced the data in the learning phase and compared results with those obtained on the original data. We estimated classifier's performance based on confusion matrix, accuracy rate with paired t-test, ROC curve and Area under the ROC curve (AROC).

LOSS AVERSION, FAMILIARITY BIAS AND ANCHORING: A STUDY ON BEHAVIOURAL ANOMALIES AMONG CAPITAL MARKET INVESTORS

MINIMOL M.C

Rajagiri Centre for Business Studies, India

minimol@rajagiri.edu

Makesh K.G

Government College, Mokeri, India

kmggeethanjaly@yahoo.co.in

Abstract

Traditional theories in finance literature postulates that capital markets are efficient and investors are rational. Investors are assumed to be utility optimizers, behaving in a prescribed manner, and as such, traditional theories are normative in nature. Harry Markowitz postulated that investors construct portfolio on the basis of expected returns and its variance. Eugene Fama (Fama, Eugin, 1969) argued that markets are informationally efficient, correcting stock prices immediately to relevant information, ensuring correctness of market prices. Later on, there were instances of behavioural anomalies and irrationalities proved to be suffered by investors. Behavioural finance emerged as a new thinking, alternate to traditional finance theories. The present study focuses on anomalies of loss aversion, familiarity bias and anchoring. It is found that investors exhibit substantial amount of aversion to losses, feel more comfortable with familiar things and also use initial reference points for decision-making.

SCIENTIFIC COMMITTEE

[Alphabetical Order]

CHAIRMAN:

João Paulo Vieito

Polytechnic Institute of Viana do Castelo — Portugal

Almir Ferreira de Sousa

São Paulo University, Brazil

Andrey Karolyi

Cornell University, United States

Anjan Thakor

Washington University, United States

Bhagwan Chowdhry

Indian School of Business and University
of California at Los Angeles (UCLA),
United States

Carlos P. Maquieira

Universidad Santo Tomás, Chile

Carlos Pombo

Universidad de los Andes, Colombia

Christian Wolff

University of Luxembourg, Luxemburg

Christopher Polk

London School of Economics, United
Kingdom

Cynthia J. Campbell

Iowa State University, United States

David Ding

Massey University, New Zealand

Dilip K. Ghosh

American University of Cairo, Egypt

Douglas T. Breeden

Duke University, United States

Eduardo S. Schwartz

University of California at Los Angeles
(UCLA), United States

Fariborz Moshirian

University of New South Wales,
Australia

Finn Østrup

Copenhagen Business School, Denmark

Franklin Allen

The Wharton School, University of
Pennsylvania, United States

Giorgio Valente

City University of Hong Kong, Hong Kong

Gonzalo Cortazar

Pontificia Universidad Católica de
Chile, Chile

Harjoat Bhamra

Imperial College of London, United
Kingdom

Hideaki Kato

Nagoya University, Japan

Huining Henry Cao

Cheung Kong Graduate School of
Business, China

Ian Cooper

London Business School, United Kingdom

Ike Mathur

Southern Illinois University, United
States

James R. Lothian

Fordham University, United States

Jonathan Karpoff

University of Washington, United States

Joseph P. H. Fan

Chinese University of Hong Kong, Hong
Kong

Jun - Koo Kang

Nanyang Business School, Singapore

Julian Franks

London Business School, United
Kingdom

Jun - Koo Kang

Nanyang Business School, Singapore

DETERMINANTS OF LOAN AGREEMENT IN ASIA-PACIFIC

Jemmy Gunawan¹
Universitas Surabaya

Deddy Marciano²
Universitas Surabaya

James Bartle³
BINUS Business School/University of New South Wales

ABSTRACT

This study aims to investigate and analyze the interdependencies of three main variables of loan agreement. The three main variables are: collateral, maturity, and loan spread. This research is applied in Asia-Pacific corporate area between 2006 and 2010.

This study used two stage least square regression analysis. This research used 6 models to describe the interdependencies of collateral, maturity, and loan spread to determine the loan agreement. This study used secondary data in the Dealscan database with 548 samples of Asia-Pacific corporates in 2006-2010.

This study shows interdependencies of collateral, maturity, and loan spread. This research reveals that the main variable which affects the loan agreement consideration is collateral.

Keywords: loan agreement, collateral, maturity, loan spread.

BACKGROUND

A company raises new funds from two sources: internal and external finance. Internal finance comes from internal sources such as retained earnings. External finance involves obtaining financing from an outside source, such as bank loans, bonds, and shares. Internal finance is preferred by a company for three reasons. The first reason is because it is easier to access, the second reason because quicker to raise, and the third reason is internal finance has a lower flotation cost compared to external finance. One interesting issue regarding financing source alternatives are loans. Loans are considered interesting because they can give benefit in terms of cost saving for tax expense.

The risk for Asia Pacific region is higher compared to the other developing countries, caused by the low level of information transparency (Godlewski and Weill, 2007) quoted in Limtiono, (2012). The other risk arises from moral hazard

¹ Alumny of Faculty of Business & Economics, Universitas Surabaya

² Faculty of Business & Economics, Universitas Surabaya. Email: us31143@gmail.com

³ BINUS Business School/Australian Business School, University of New South Wales

aspect in developing countries. Dennis and Mullineaux (2000) as quoted in Limtiono (2012) said that moral hazard also influenced the given loan structure. Tanjung (2012) mentioned that Asia Pacific as a region with high risk and also has a lower information transparency compare to America and Europe. Marciano (2010) also believed that countries in Asia Pacific region have a higher risk compare to the other developing countries, because the information transparency in Asia Pacific is very low compare to the other developing countries. This situation also leads to a higher moral hazard problems in Asia Pacific countries caused by a higher asymmetric information.

This research about determinants of loan agreement is interesting because it is carried out in a region where developing countries have good economic prospects but also high risk due to asymmetric information and moral hazard.

THEORITICAL FRAMEWORK

A loan agreement is a contract between a borrower and a lender which regulates the rights and obligation of each party, through a lending instrument. In a loan agreement there are three main issues that needs to be agreed by both parties: the loan spread, collateral, and maturity. These three components are related and influence each other. Below is the relationship between the three variables in the loan agreement.

Signaling theory explains that collateral can be used as a tool to identify the borrower's quality (Bester, 1985) as quoted in Tra, Pham Thi Thu & Lensink, Robert, (2006). A borrower's quality can be seen from their response towards collateral request by the lender. Loan spreads are used by the lender to check the default risk of a loan, or to select between a good loan or a risky loan. The introduction of loan spread can also be a preventive action against the borrower risk. By referring to collateral and loan spread, high risk borrowers can be identified easily. Borrowers with high risk tends to choose loan agreement with low collateral and high loan spread from the lender.

A different approach came from Pozzolo (2002). Pozzolo mentioned that banks will still need collateral and loan spread to identify borrower. The success rate of a borrower is determine by risk level of the borrower and also the performance capacity of the borrower it self. High risk borrower will also gives high credit risk for the bank. To minimize the risk, bank will increase the security level of its credit by requesting a high collateral from the borrower accompanied by a high loan spread as well. This research is based on two assumptions. First, collateral is more important for the borrower than for the bank. Second, borrowers can maximize profit by knowing their own performance and choose a suitable project based on the their capability. Collateral is more important for the borrower and that is why the borrower will try their best to avoid default in loan, so in order not to loss their collateral. This can be done by choosing the right project based on the risk and capacity of the borrower.

H1: Collateral has a positive relationship with loan spread, collateral gives positive influence towards loan spread.

H2: Loan spread has a positive relationship with collateral, loan spread gives positive influence towards collateral.

Based on research conducted by Myers (1977), Smith and Warner (1979), Chan and Takor (1987) about agency costs, it was found that collateral has a positive relationship with maturity. Collateral and maturity have a positive relationship because either collateral or maturity can be used to overcome problem faced by the lender, regarding underinvestment and asset substitution by the borrower. The underinvestment issue occur when the company with a high risk loan status can get a loan for a risky project or for low risk project with small NPV. Asset substitution occurs when there is a fund transfers from lender to share holders. If the fund from lender can be managed well by the borrower, then the profit will be owned by the share holders, while if the fund from the lender experience a default, then the lender needs to be responsible for the loss. The solution for this problem is by shortening the maturity period of a loan, or by asking for collateral from a company. The positive relationship can be created from two conditions. First, if the lender wants to strengthen the monitoring activity, then the lender will shortening the maturity period of the and ask for collateral. Second, if the lender want to compensate for the loss if there is a default, then the lender will ask for a higher collateral but with a longer maturity period.

Boot et al (1991) as quoted in Tra, Pham Thi Thu & Lensink, Robert, (2006) concluded that collateral and maturity have a negative relationship. The example given by Boot, provide a situation where the bank has an ownership issue and collateral liquidation, then the cost to ask for a lower collateral will be compensated for long maturity period. The reason behind this action is because with long maturity period, the bank will have flexibility to decide when the loan will be default, and also gives a chance to the borrower to pay off the debt. In this case, the bank takes advantage from the flexibility to reduce the collateral cost by lowering the collateral but compensate it with long maturity period.

H3: Collateral has a negative relationship with maturity, collateral gives negative influence towards maturity.

H4: Marurity has a negative relationship with collateral; maturity gives negative influence towards collateral.

There is a dissenting opinion between researchers regarding the relationship of maturity and loan spread, because some researchers are still rely on the trade off hypothesis. In regard to this, maturity and loan spread have a positive relationship. This is because the longer maturity period of a loan, the loan spread will also become higher to compensate for the high level of premium risk caused by longer maturity period of a loan. It follows that maturity and loan spread have

a positive relationship. Other than that, based on the term structure of interest rates, longer maturity period means the uncertainty risk will also become higher, resulting in a high interest rate to compensate for the higher risk.

Some researchers believe that maturity has a negative relationship with loan spread. High risk borrower will receive high loan spread and short term maturity from the lender to minimize the lender's risk. The decision is made as part of monitoring action by the lender towards the borrower. The loan risk can be minimized for the lender, because with short term maturity period, so monitoring activity can occur more frequently.

Based on the previous empirical research findings by Gottesman and Roberts (2002), there is a positive relationship between maturity and loan spread. Other research done by Strahan (1999) and Dennis et al (2000) find that there is a negative relationship between loan maturity and loan spread.

H5: There is negative correlation between maturity and loan spread, maturity gives negative correlation towards loan spread.

H6: There is negative correlation between loan spread and maturity, loan spread gives negative influence towards maturity.

RESEARCH METHOD

This research is based on applied research, since the previous research findings are still being developed in this area. Based on this purpose, this research is considered as causal research, since there is a specific and clear purpose for this research, which is to identify determinants of loan agreement in Asia Pacific during 2006-2010. Given the data we have this research is both quantitative and experimental.

A two stage regression analysis is used in this research, with dependent and independent variables. But this research is also testing the relationship between independent variables and the influence towards loan agreements, which means there is a dependent variable that can also be an independent variable. The dependent variables in this research are maturity, loan spread, and collateral. The independent variables in this research are firm size, loan size, ROA, profit before tax, liquidity ratio, syndicated, seniority, country risk, interest coverage and debt to asset ratio. The relationship between dependent and independent variables is multivariate asymmetric, because there are several independent variables that influence dependent variable.

Model 1

$$\text{Collat} = \Pi_1 X + \varepsilon_4$$

$$\text{Collat} = \Pi_1 [\text{Debt}, \text{Profit}, \text{Liquidity}, \text{Loan size}, \text{Firm size}]$$

Model 2

$$Lmat = \Pi_2 X + \varepsilon_5$$

$Lmat = \Pi_2$ [Liquidity, Debta, Profibt, Firm size, Seniority, Syndicated, Country risk]

Model 3

$$Loanr = \Pi_3 X + \varepsilon_6$$

$Loanr = \Pi_3$ [ROA, Profibt, Debta, Liquidity, Interest coverage]

After we have the regression forecast results, the next step is to perform second regression analysis to see the relationship between three determinant factors of loan agreement. Several variables such as firm size, loan size, ROA, profit before tax, liquidity ratio, syndicated, seniority, country risk, interest coverage, and debt to asset ratio, are used as control variables. The model that we use is:

Model 4

$$Collat^f = \Pi_1^f X$$

$Collat^f = \Pi_1^f$ [Lmat, Loanr, Debta, Profibt, Liquidity, Loan size, Firm size]

Model 5

$$Lmat^f = \Pi_2^f X$$

$Lmat^f = \Pi_2^f$ [Collat, Loanr, Liquidity, Debta, Profibt, Firm size, Seniority, Syndicated, Country risk]

Model 6

$$Loanr = \Pi_3^f X$$

$Loanr = \Pi_3^f$ [Lmat, Collat, ROA, Profibt, Debta, Liquidity, Interest coverage]

ANALYSIS

The results for collateral forecast test show that there is a positive and significant correlation between collateral forecast with loan spread as a dependent variable. The positive relationship happens as a response from the lender regarding the borrower risk. A high borrower risk will make the lender request collateral for the loan agreement along with a high loan spread. The reason is that with a high risk borrower, there will be a need for collateral and a large loan spread to minimise the risk of the loan. Based on the research by Pozzolo (2002) this suggests that bank need collateral and give a high loan spread to a high-risk borrower.

The results of maturity forecast test show that there is a positive and significant correlation between maturities forecast with loan spread as a dependent variable. The positive relationship happens as a response from the lender regarding the borrower risk. A longer maturity period in a loan agreement, results in a higher uncertainty risk, which is why we still need a high loan spread to

compensate for this risk. On the contrary, when lender requires a short maturity period to the borrower, the loan spread asked by the lender is also small, because a loan with short maturity has a lower uncertainty risk, which results in a lower loan spread. This is also supports the terms structure of interest theory. Based on research by Tra, Pham Thi Thu & Lensink, Robert, (2006), there is a positive correlation between maturity and loan spread.

Table 1.
Regression Test Results Model 1-3

Variable	Collateral		Maturity		Loan Spread	
	Coefficient	t-stat	Coefficient	t-stat	Coefficient	t-stat
C	9.5090	1.2630	125.7350	8.7640	130.014	22.8890
ROA	-	-	-	-	8.327	0.2520
DEBTA	0.1640	1.0520	-1.8410	-1.2200	-5.698	-1.4900
LIQUIDITY	-0.0003***	-2.8180	-0.0020***	-5.5780	-0.005***	-8.6120
PROFIBT	-0.3830**	-1.9780	3.1280**	1.9980	-3.410	-0.8640
FIRM SIZE	-0.7630***	-5.1520	-5.4580***	-3.3020	-	-
LOAN SIZE	-3.0270	-1.1480	-	-	-	-
SENIORITY	-	-	-53.756***	-4.3700	-	-
SYNDICATED	-	-	-5.6890*	-1.7750	-	-
COUNTRY RISK	-	-	0.0560	0.0520	-	-
INT COVERAGE	-	-	-	-	-0.0010***	-8.8730
Adj. R-Squared	0.0950		0.0750		0.0810	
F-STAT	36.0610***		5.8970***		7.8590***	

The results of collateral forecast test show that there is a negative and significant relationship between collateral forecast with maturity as a dependent variable. The negative relationship occurs as a response from the lender regarding the borrower risk. Based on the collateral, if the borrower risk is high, the lender will also give a loan with a short term maturity as a way to monitor the default potential of the borrower. Based on the research by Boot et al (1991) quoted in Tra, Pham Thi Thu & Lensink, Robert, (2006), it is stated that there is a negative correlation between collateral and maturity.

The results of loan spread forecast test show that there is a positive and significant relationship between loan spread forecast and maturity as a dependent variable. The positive relationship occurs to minimize the loan risk. If the borrower receives a loan with a high loan spread, it means that the borrower risk is high. High-risk borrower will get long term maturity from the lender to minimize the default potential of the loan. On the contrary, if the borrower receive

a low loan spread from the lender, it means that the borrower have a low risk. Further, if the borrower obtains a loan with short term maturity period, it is a positive signal to the market. A short term maturity period shows that the borrower is confident in being monitored by the lender more frequently because the risk is low. This results also match with the research done by Gottesman and Roberts (2002) quoted in Tanjung, (2012), saying that there is a positive and significant correlation between maturity and loan spread.

Table 2.
Regression Test Results Model 4-6

Variable	CollateralF		MaturityF		Loan SpreadF	
	Coefficient	t-stat	Coefficient	t-stat	Coefficient	t-stat
C	9.3960	7.4050	174.297	6.5390	21.594	0.6840
COLLATERALF	-	-	-133.532***	-3.3450	207.425***	2.8890
MATURITYF	-0.0130	-0.6290	-	-	1.655**	2.2180
LOAN SPREADF	0.0080	0.6660	0.091**	1.9690	-	-
ROA	-	-	-	-	-6.859	-0.2130
DEBTA	0.1980	1.2960	0.731	0.4810	0.324	0.0980
LIQUIDITY	-0.0004**	-2.4880	-0.004***	-4.4300	0.0003	0.3640
PROFIBT	-0.3330*	-1.7240	-1.533	-0.7070	-7.756	-1.4310
FIRM SIZE	-0.8200***	-4.6470	-17.212***	-4.1420	-	-
LOAN SIZE	-3.0450	-1.1430	-	-	-	-
SENIORITY	-	-	-52.477***	-4.0410	-	-
SYNDICATED	-	-	-6.239*	-1.9590	-	-
COUNTRY RISK	-	-	-0.458	-0.4150	-	-
INT COVERAGE	-	-	-	-	-0.0003***	-7.7350
Adj. R-Squared	0.0950		0.0750		0.0810	
F-STAT	36.0600***		5.8970***		7.8590***	

The results of maturity forecast test show that there is a negative but insignificant relationship between maturity forecast with collateral as dependent variable. The negative relationship between maturity and collateral can be explained by the borrower risk. If the borrower risk is high, then the lender will give a shorter maturity period to assist monitoring the borrower. High borrower risk also lead to lender's decision to ask for collateral to minimize the loss if there is a default. The research done by Boot et al (1991) as quoted in Tanjung, (2012) shows that collateral and maturity have a negative relationship.

The results of loan spread forecast test show that there is a positive but insignificant correlation between loan spread forecast and collateral as dependent

variable. The positive influence is related to the borrower risk. If there is a high borrower risk, the lender will give a high loan spread with collateral. On the contrary, low-risk borrower will make lender to give a low loan spread without collateral. Pozzolo (2002) gives example that in a loan agreement with collateral, the loan spread is higher compare to the loan spread in a loan agreement without collateral.

SUMMARY

Collateral instrument in a loan agreement usually indicates short-term maturity debt. This is because if lender asked for a collateral, it means the borrower condition is not poor, and the lender would demand a short-term maturity. This will give implication for the borrower since the inability to get a long term maturity means losing a chance to do long term investment or expansion activity. Long term investment or expansion activity usually use long term financing. Collateral minimises losses borne by the lender and this can be further mitigated by a short term loan for monitoring purposes.

Having a collateral in loan agreement usually leads to a high loan spread. This is because if the lender would demand collateral, the borrower condition is not good, so that the lender will also demand a high loan spread. The implication for borrower with a high loan spread means the borrower will be responsible for a higher interest costs. High interest will disturb the liquidity level and earnings of the borrower. Without income and current assets, the borrower's financial performance will be degraded, and the borrower shall be deemed as a borrower with unfavourable credit quality. In the future, borrower with unfavourable reputation will face difficulties to get a beneficial loan, in terms of collateral, maturity and loan spread aspects.

A borrower who get a loan with long-term maturity from the lender, usually will need to be responsible for a high loan spread. This is based on the term structure of interest, where is a longer maturity means the uncertainty risk of the loan is higher, which means a higher loan spread is needed to compensate the uncertainty risk. A higher loan spread means that the borrower will be responsible to pay a higher interest expenses to the lender, which is also means a lower earnings for the borrower. But with a longer maturity, the default risk of the loan will decrease. The implication of a high loan spread for the lender, it will decrease the risk borne by the lender, especially for uncertainty risk. A higher uncertainty risk means a higher return for the lender. The return level for the lender is obtained from the high loan spread given to the borrower related to the given loan.

REFERENCES

- Atmojo, I., 2004, Corporate Loan Pricing Assesment: Empirical Study in Indonesia, Thesis [*Penilaian Harga Pinjaman Korporasi : Studi Empiris di Indonesia, Skripsi*], unpublished.
- Bester, H. (1985) 'Screening vs. rationing in credit markets with imperfect information', *American Economic Review*, 75: 850-55.
- Boot, A., Thakor, A. and Udell, G. F. (1991), 'Secured lending and default risk: equilibrium analysis, policy implications and empirical results', *Economic Journal*, 101: 458-72.
- Cohil and Yagil, 2007, A International Survey of Corpoorate Financial Policies. *Working paper*. Hal 33.
- Dennis, S., Nandy, D., Sharpe, I., 2000, *The Determinants Of Contract Terms In Bank Revolving Credit Agreements*, *Journal of Financial and Quantitative Analysis* 35, 87-110
- Limtiono, 2012, The Determinants of Corporate Debt Maturity in Asia Pacific Region in 2006-2010, Thesis [*Faktor-Faktor yang Mempengaruhi Debt Maturity Pada Pinjaman Korporasi di Asia Pasific Periode 2006-2010, Skripsi*], unpublished.
- Marciano, D., 2010, Asymmetric Information, Moral Hazard, and Financing Structure in determining Corporate Value in USD, Working Paper, Dissertation [*Pengaruh Asimetri Informasi, Moral Hazard, dan Struktur Pendanaan Dalam Penentuan Harga Korporasi Dalam Bentuk US Dollar, Working Paper, Disertasi*], unpublished.
- Megginson, W, L., 1997, *Corporate Finance Theory*, Addison-Wesley.
- Merton, R. C. (1974) 'On the pricing of corporate debt: the risk structure of interest rates', *Journal of Finance*, 29: 449-70.
- Pozzolo, A. F. (2002) 'Secured lending and borrowers' riskiness', Working Paper, Bank of Italy, Research Department.
- Strahan, P. E. (1999) 'Borrower risk and the price and nonprice terms of bank loans', Staff Report 90, New York: Federal Reserve Bank of New York.
- Tanjung, Yudi. S, 2012, Asymmetric Information Effect and Diversification Effect in relations to Loan Pricing in Asia Pacific Region in 2006-2010, Dissertation [*Pengaruh Asymmetry Information Effect dan Diversification Effect Dalam Pembentukan Harga Pinjaman di Asia Pasifik Tahun 2006-2010, Disertasi*], unpublished.
- Tra, Pham Thi Thu & Lensink, Robert, 2006. "The Determinants of Loan Contracts to Business Firms: Empirical Evidence from a Private Bank in Vietnam," *Working Paper Series RP2006/86*, World Institute for Development Economic Research (UNU-WIDER).